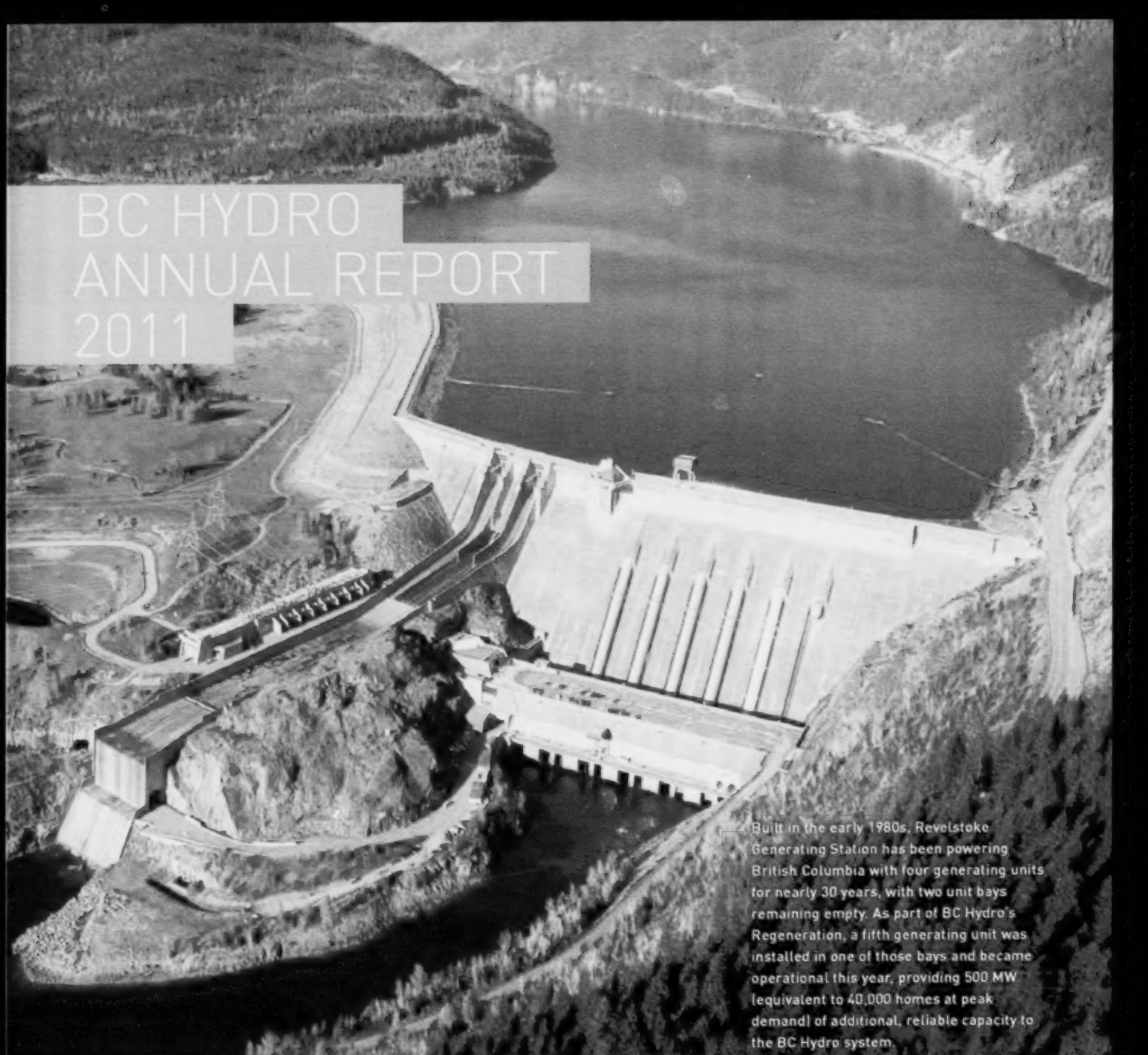


BC HYDRO ANNUAL REPORT 2011



Built in the early 1980s, Revelstoke Generating Station has been powering British Columbia with four generating units for nearly 30 years, with two unit bays remaining empty. As part of BC Hydro's Regeneration, a fifth generating unit was installed in one of those bays and became operational this year, providing 500 MW (equivalent to 40,000 homes at peak demand) of additional, reliable capacity to the BC Hydro system.

1980



1981



1984





REGENERATION



OUR 2011 ANNUAL REPORT TELLS BC HYDRO'S REGENERATION STORY AND HOW THE VISION OF "POWERING B.C. WITH CLEAN, RELIABLE ELECTRICITY FOR GENERATIONS" IS BEING ACHIEVED.

HIGHLIGHTS

- Recognized as one of Canada's Top 100 Employers, one of B.C.'s Top Employers, one of the best Diversity Employers as well as one of the best employers for new Canadians.
- Successfully completed the integration of the BC Transmission Corporation into BC Hydro.
- Continued to focus on keeping rates as affordable as possible by finding ways to work more efficiently and controlling our costs.
- Completed on time and on budget such major generation projects as Revelstoke Unit 5, the GM Shrum Stator Replacement Project, and the Strathcona Intake Tower Anchoring Project.
- Saved 2,368 GWh through demand side management, which was supported in fiscal 2011 by the implementation of a Large General Service conservation rate structure and such conservation initiatives as the Low Income Program.
- Completed the Clean Power Call, reviewed and updated the Standing Offer Program and advanced several Bioenergy Initiatives.
- Formed a Safety Taskforce to improve BC Hydro's safety performance and culture, while building on past safety strides and accomplishments.
- Advanced the Smart Meter & Infrastructure Program, which will replace 1.8 million meters and modernize BC Hydro's electricity grid.
- Achieved 89 per cent overall customer satisfaction rating.
- Ranked second out of seven Large Segment Utilities in Canada for overall customer satisfaction in a Canadian Electric Utility Residential Customer Satisfaction Study.
- Achieved carbon neutrality under the B.C. Carbon Neutral Government Regulation.

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For 50 years, BC Hydro has been providing clean, reliable electricity to our customers. B.C. continues to grow and so has our need for power. Today, we are planning for the next 50 years by investing in new projects, upgrading existing facilities and working with customers to conserve energy through Power Smart.

Learn more at bchydro.com/regeneration

LETTER FROM THE CHAIR, AND PRESIDENT AND CEO TO THE MINISTER OF ENERGY

Fiscal 2011 was a year of change. In addition to undertaking a Regeneration plan to refurbish and expand our electricity system, BC Hydro and the BC Transmission Corporation (BCTC) were integrated and the *Clean Energy Act* was introduced with its goals of electricity self-sufficiency, job creation and the reduction of greenhouse gas emissions.

We are currently forecasting demand for energy to increase as much as 40 per cent in the next 20 years due to emerging technologies which use more power and population growth throughout the province of B.C. That's why BC Hydro has been investing in new and existing infrastructure, as well as planning for the future. In fiscal 2011, we completed numerous capital projects on generating facilities as well as transmission and distribution systems. We also worked towards modernizing our electricity system through the Smart Metering and Infrastructure Program, which will provide our 1.8 million customers with new, digital smart meters.

Throughout it all, we continued to focus on balancing the need to invest with the need to keep our rates as affordable as possible for our ratepayers. BC Hydro is making every effort to lower costs by improving productivity and working more efficiently and has also taken steps to control our costs as we modernize the province's electricity system. So far, we have made \$78 million in cost reductions over the past three years, including \$25 million in annual savings from the integration of BCTC. In our current rate application, we committed to finding \$95 million in operating budget savings over the next three years.

BC Hydro's net income was \$589 million in fiscal 2011, which was greater than the fiscal 2010 total of \$447 million. We met our target for this year, which was adjusted following the BC Hydro/BCTC integration and the outcome of our fiscal 2011 Revenue Requirements Application. We also provided a return on equity of 14.13 per cent to British Columbians via the Province of B.C., our Shareholder.

Last year, we continued to deliver conservation education to our various customer groups and, despite a difficult economy, energy saved through our Power Smart programs surpassed expectations. We were also above target in the area of customer satisfaction, and met our targets for greenhouse gas emissions and clean energy.

Our reliability performance improved, but more progress is needed in the area of safety. Although our All Injury Frequency measure was higher than expected, it was still lower than the industry average as reported by WorkSafeBC. Our All Injury Severity result was slightly above target and we have continued to focus our safety efforts on ensuring hazards are identified and barriers are provided.

In August 2010, Cranbrook-based electrician Brandon Beday passed away in a work-related accident. With the intent of ensuring that no employee is seriously injured or fatally wounded again, we created a Safety Action Plan and brought together a Safety Taskforce made up of dedicated front-line employees who are determined to create and implement a plan that will permanently transform BC Hydro's safety culture.



Dan Doyle, O.B.C.
Chair, BC Hydro



David Cobb
President and CEO, BC Hydro

Safety is BC Hydro's most important priority, but we also have many other long term risks to manage given our large and complex business: financial risks, the changing demand for electricity, old infrastructure, an aging workforce, environmental concerns and the changing dynamic of the electricity industry. This report highlights the work we are undertaking to mitigate these risks and highlights how the organization is evolving.

Fiscal 2012 will be the year we recognize BC Hydro's 50th Anniversary as a Crown corporation. It will be a reminder of all the work and investments made by generations of British Columbians to create an electricity system that is the backbone of our economy. And it will be a chance to consider the next 50 years as we reinvest and regenerate BC Hydro to continue to supply British Columbia with clean, reliable electricity.



Dan Doyle, O.B.C.
Chair



David Cobb
President and CEO



Photo Credit: BC Hydro

to mechanic

Hugh Keenleyside Dam lock at sunset, near Castlegar

BC Hydro's 2011 Annual Report was prepared under the Board's direction in accordance with the Budget Transparency and Accountability Act and in accordance with the Global Reporting Initiative Guidelines. The Board is accountable for the contents of the report, including what has been included in the report and how it was reported.

This report represents a balanced presentation of BC Hydro's economic, environmental and social performance for the fiscal year ended March 31, 2011 and considers all significant decisions, events and identified risks as of that date.

The information was prepared in accordance with the B.C. Reporting Principles and represents a comprehensive picture of our performance in relation to our 2010/11 to 2012/2013 Service Plan.

The Board is responsible for ensuring internal controls are in place to measure and report on performance of the company in a timely fashion. This report contains estimates and interpretive information that represent the best judgment of management. Any changes in mandate, direction, goals, strategies, measures or targets made since the 2010/11 to 2012/13 Service Plan was released and any significant limitations in the reliability of data are identified in this report.

ORGANIZATION OVERVIEW

OUR MANDATE

BC Hydro's mandate includes generating, manufacturing, conserving, supplying, purchasing and selling electricity to meet the need in British Columbia in a cost-effective and reliable manner.

ENABLING LEGISLATION

The *Hydro and Power Authority Act* established BC Hydro and our general powers and governance and the *Utilities Commission Act* created the BC Utilities Commission (BCUC) and established the framework for regulation of public utilities. The BCUC is responsible for ensuring that customers receive safe, reliable and non-discriminatory energy services at fair rates from the utilities it regulates, that shareholders are afforded a reasonable opportunity to earn a fair return on their invested capital, and that the competitive interests of B.C. businesses are considered.

Both the definition of equity to the Shareholder and the method to determine an appropriate return on this equity are defined by Special Directions from the Province. The Special Directions require annual dividend payments to the Government of 85 per cent of our net income, adjusted for capitalized finance charges and related amortization, as long as our debt-to-equity ratio is not greater than 80:20. For more information on the regulatory process, see Appendix B.

BC Hydro's assets come under the terms of the *BC Hydro Public Power Legacy and Heritage Contract Act*, which ensures public ownership of BC Hydro's transmission and distribution systems, and all of BC Hydro's existing generation and storage assets. It also includes any future increases to the capacity and energy capability of these facilities.

The 2010 *Clean Energy Act* updates several of the elements and targets in the most recent version of the *The BC Energy Plan*, released in 2007, and sets the foundation for unprecedented investments in clean, renewable energy across the province. Key objectives include ensuring electricity

self-sufficiency at competitive rates, harnessing B.C.'s clean power potential to create jobs in every region and strengthening environmental stewardship and reducing greenhouse gas emissions.

OUR VISION, STRATEGIC OBJECTIVES AND VALUES

In fiscal 2011, an updated vision, six new strategic objectives and a refreshed set of values were determined, as illustrated in the diagram below:



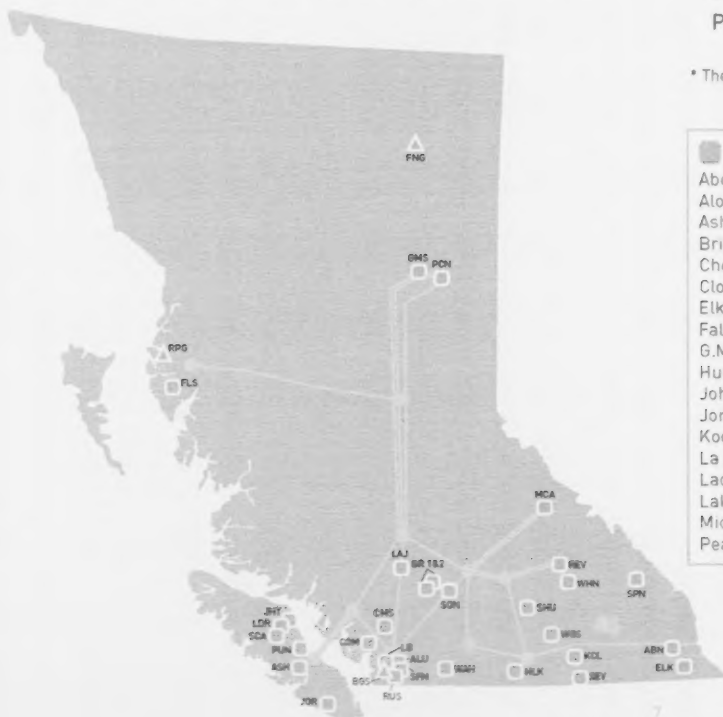
LEGEND:

Blue text—Our Vision

Green circle—Our Six Values

Middle bars—Six Strategic Objectives

We deliver electricity to our customers through a network of over 18,500 kilometres of transmission lines and 57,648 kilometres of distribution lines. This network also includes approximately 300 substations, 900,000 utility poles and 325,000 individual transformers. The system connects with other transmission systems in Alberta and Washington State, which improves the overall reliability of our system and provides opportunities for trade.



- **Powerex Corp.**, BC Hydro's subsidiary, is involved in a broad range of power and gas marketing and trading activities (see page 30).
- **Powertech Labs Inc.**, BC Hydro's subsidiary, specializes in clean energy consulting, testing and systems integration (see page 30).
- **British Columbia Transmission Corporation (BCTC)** was integrated with BC Hydro when the *Clean Energy Act* passed in June 2010.
- **Accenture Business Services of British Columbia (ABSBC)** provides Customer Care, Information Technology, Human Resources, Financial Systems and Building and Office services under a 10-year outsourcing agreement that came into effect in 2003.
- **Independent Power Producers (IPPs)** provided 10,805 GWh of energy, about 20 per cent of total domestic supply, to the BC Hydro system in fiscal 2011 and continue to play a critical role in BC Hydro achieving electricity self-sufficiency by 2016.
- **The Canadian Entitlement** between Canada and the United States varies from year to year, but generally entitles Canada to 4,400 GWh per year of *firm energy and about 1,250 MW of capacity. This entitlement is half of the extra power potential produced from generation facilities in the U.S. as a result of the Columbia River Treaty, which is subject to termination (given 10 years notice by either country) in 2024. The Canadian Entitlement is owned by the Province of B.C. and is marketed on their behalf by Powerex.

* The energy guaranteed by the supplier to be available over a given time period

	Hydro Generating Stations		Puntledge	PUN
Aberfeldie	ABN		Revelstoke	REV
Alouette	ALU		Ruskin	RUS
Ash River	ASH		Seton	SON
Bridge River 1 & 2	BR 1&2		Seven Mile	SEV
Cheakamus	CMS		Shuswap Falls	SHU
Clawhom	COM		Spillimacheen	SPN
Elko	ELK		Stave Falls	SFN
Falls River	FLS		Strathcona	SCA
G.M. Shrum	GMS		Waleach	WAH
Hugh Keenleyside	HLK		Walter Hardman	WHN
John Hart	JHT		Watshan	WGS
Jordan River	JOR			
Kootenay Canal	KCL		 Thermal Generating Stations	
La Joie	LAJ		Burrard	BGS
Ladore	LDR		Fort Nelson	FNG
Lake Buntzen	LB		Prince Rupert	RPG
Mica Creek	MCA			
Peace Canyon	PCN		 500 kV Circuits	

REPORT ON PERFORMANCE

Guiding Principles	Performance Measure	F2009 Actual	F2010 Actual	F2011 Target	F2011 Actual	F2012 Target ¹	F2013 Target ¹	F2014 Target ¹
SAFETY	Severity [Number of calendar days lost due to injury per 200,000 hours worked]	32	18.8	20	22.2	17	16	15
	All Injury Frequency [Number of employee injury incidents per 200,000 hours worked]	1.4	1.2	1.3	1.7	1.5	1.4	1.3
RELIABILITY (CUSTOMER)	CAIDI (hours)—Customer Average Interruption Duration Index	2.47	2.28	2.15 ²	2.20	2.35 ²	2.35 ²	2.35 ²
	SAIFI (frequency)—System Average Interruption Duration Index	1.67	1.52	1.22 ²	1.49	1.50 ²	1.45 ²	1.40 ²
	CEMI-4 (%)—Customers Experiencing Multiple Interruptions	11.57	13.09	8.00 ²	13.56	12.00 ¹	11.00	10.00
ELECTRICITY SECURITY (SUPPLY)	Winter Generation Availability Factor (%)	96.4	97.6	96.4	94.4 ¹	96.4	96.5	96.5
	Forecast Supply-Demand Balance (MW) N/R	N/R	N/R	0	115 ¹	N/R	N/R	N/R
CLIMATE CHANGE & ENVIRONMENTAL IMPACT	Clean Energy (%)	94	93	90 ¹	95	93	93	93
	Greenhouse Gas Emissions [million tonnes CO ₂ e]	1.46	1.36	1.50 ¹	1.11	N/R ¹	N/R ¹	N/R ¹
	Carbon Neutral Program Emissions [F2009-F2011 million tonnes; F2012-F2014 kilotonnes]	0.0273	0.0299	0.0260 ¹	0.0298	30 ¹	30 ¹	29 ¹
ENERGY CONSERVATION & EFFICIENCY	Demand-Side Management [GWh/year, cumulative since F2008]	983	1,778	2,300	2,048	3,500	4,900	6,700
CUSTOMER SATISFACTION	CSAT Index [% of customers satisfied or very satisfied]—Customer Satisfaction Index	90	90	83	89	83	83	83
	Billing Accuracy [% of accurate bills]	98.5	98.5	98.2	98.5	98.2	98.2	98.2
	First Call Resolution [% of customer calls resolved first time]	75	74	71	73	71	71	71
PEOPLE	Employee Engagement (%)	62	N/A ¹	62	N/A ¹	62	N/A ¹	64
FINANCIAL	Net Income* [\$ in millions]	365	447	609	589	611	584	626
	Operating Costs* [\$ in millions] Definition revised for F2012–2014 targets	714	785	692	788	908	895	931
	Return on Assets (%)	5.8	5.2	6.2	5.6	N/R	N/R	N/R
	Return on Regulatory Equity (%)	11.75	12.49	14.37	14.13	N/R	N/R	N/R
	Interest Coverage	1.72	1.96	2.08	2.05	N/R	N/R	N/R
	Debt to GAAP Equity	81	80	80	80	80	80	80

N/A—Information not available

N/R—Not Reported

* As a result of the integration of BTC with BC Hydro in July 2010, the fiscal 2011 RRA Negotiated Settlement Agreement and changes to the presentation of certain financial statement items, the targets for Net Income and Operating Costs for fiscal 2011 were revised to \$569 million and \$830 million, respectively, as published in BC Hydro's 2011/12–2013/14 Service Plan filed in February 2011. The definition of Operating Costs reflected in the revised target for fiscal 2011 and the targets for fiscal 2012 through fiscal 2014 is "personnel expenses, materials and external services, included in income, less recoveries and capitalized costs." The previous definition, as presented in the table for fiscal 2009 Actual, fiscal 2010 Actual and fiscal 2011 Target and Actual, is "operating costs excluding regulatory account transfers and non-current employee future benefit service costs."

Notes from performance chart (on previous page)

¹F2012–F2014 performance targets are reported as published in the BC Hydro Service Plan 2012/13–2013/14.

²Our reliability targets are based on specific values; however, performance within ± 10 per cent is considered acceptable given the wide range of potential disruptions to the electrical system. BC Hydro measures reliability under normal circumstances, which excludes major events.

³The final Winter Generation Availability Factor at 94.4 per cent is below target due to extended planned and forced outages throughout the winter period, November 15–February 25.

⁴Approximately 115 MW of additional peaking capacity was forecast to be required to meet the 90th percentile reliability standard for the annual peak load, anticipated in December 2010.

⁵The fiscal 2011 target for Clean Energy was revised from 90 per cent to 93 per cent as a result of the Clean Energy Act.

⁶As a result of the integration of BCTC into BC Hydro in July 2010, the fiscal 2011 targets for GHG Emissions and Carbon Neutral Program were revised to 1.55 million tonnes CO₂e and 0.0270 million tonnes CO₂e, respectively.

⁷Measurement of GHG emissions in the Service Plan 2012/13–2013/14 has been revised to report Electricity Production GHG Emissions—carbon dioxide equivalent metric measured in kilotonnes.

⁸Measurement of Carbon Neutral Program Emissions in the Service Plan 2012/13–2013/14 has been revised to report as carbon dioxide equivalent, in kilotonnes.

⁹As a result of the integration of BCTC to BC Hydro in July 2010 and Government Review of BC Hydro in the spring of 2011, the full company-wide employee engagement survey process has been deferred until the fourth quarter of fiscal 2012.

HOW WE MEASURE OUR PERFORMANCE

BC Hydro uses a series of measures to guide business performance and progress, and to evaluate whether a particular key priority is on track. Measures are results based to provide a more accurate evaluation of our performance. BC Hydro management is responsible for measuring performance against targets, ensuring that the information is accurate, and that results are reported to the Board on a quarterly basis and publicly on an annual basis in the Annual Report. Where possible, we also participate in benchmarking studies to determine where improvement may be required. Individual performance measures text included in the detailed description of each measure describes, on an exemption basis, if there are any limitations to the accuracy and reliability of the data included. Please see individual performance metrics for more information.



Above: Fort St. John power line technician subforeman Ed Shuster and his crew plan their residential trouble call work safely by using a Spatial Asset Management system program.

NEW AND DISCONTINUED PERFORMANCE MEASURES FOR FISCAL 2012

BC Hydro has revised its Strategic Objectives for fiscal 2012 in support of the new *Clean Energy Act*, passed in June 2010, and the integration of BCTC and BC Hydro in July 2010. Each of our new Strategic Objectives are supported by corresponding performance measures and targets, five of which are new measures introduced in BC Hydro's Service Plan 2011/12–2013/14. These measures track BC Hydro's progress in delivering on our key priorities.

As part of BC Hydro's annual review of our performance measures, BC Hydro's new strategic objectives are more relevant indicators of performance. Therefore, the following measures will not be reported in fiscal 2012:

Electricity Security (Supply)

- Forecast Supply-Demand Balance (MW)

Financial Targets

- Return on Regulatory Equity
- Return on Assets
- EBIT Interest Coverage

Climate Change

- GHG Emissions (million tonnes CO₂e)—In the past, BC Hydro set targets for two GHG emissions measures: one for overall GHG emissions, and one to track performance toward carbon neutral public sector objectives. Starting with the new Service Plan 2011/12–2013/14, we replaced the overall GHG Emissions measure with the Electricity Production GHG Emissions measure to ensure that all material emission sources are included in one of the two GHG metrics, but not both. Restricting one metric to Electricity Production also makes our numbers more comparable to other utilities. BC Hydro will start reporting on the new Electricity Production GHG Emissions in the fiscal 2012 Annual Report.

¹ Measures of BC Hydro's contribution to economic development will include our direct and indirect impacts on provincial GDP and job creation. A baseline for BC Hydro's impacts will be developed in fiscal 2012 to enable us to set targets in next year's Service Plan.

² Operating Costs as defined in BC Hydro's 2011/12–2013/14 Service Plan are "personnel expenses, materials and external services, included in income, less recoveries and capitalized costs."

³ Employee Engagement survey results are reported every two years.

STRATEGIC OBJECTIVES, PERFORMANCE MEASURES AND TARGETS

(New measures introduced in fiscal 2012 are bolded in targets.)

SAFELY KEEP THE LIGHTS ON

	F2012 TARGET	F2013 TARGET	F2014 TARGET
Zero Fatality and Personal Injury (Number)	0	0	0
Severity (Number of days lost to injury per 200,000 hours worked)	12	16	15
All Injury Frequency (Number of injuries per 200,000 hours worked)	1.5	1.6	1.3
Customer Average Interruption Duration Index (CAIDI) (hours)	2.35	2.35	2.35
System Average Interruption Duration Index (SAIDI) (frequency)	1.50	1.45	1.40
Customers Experiencing Multiple Interruptions—four or more (CEMI-4) (percentage)	12	11	10
Winter Generation Availability Factor (percentage)	96.4	96.5	96.5

SUCCEED THROUGH RELATIONSHIPS

	F2012 TARGET	F2013 TARGET	F2014 TARGET
CSAT Index—Customer Satisfaction Index (percentage)	89	89	89
Progressive Aboriginal Relations Designation	SILVER	GOLD	GOLD
Billing Accuracy (percentage)	98.2	98.2	98.2
First Call Resolution (percentage)	71	71	71

MIND OUR FOOTPRINT

	F2012 TARGET	F2013 TARGET	F2014 TARGET
Demand-Side Management (GWh/year, cumulative)	3,500	4,900	6,700
Electricity Production GHG Emissions (kilotonnes)	840	840	840
Carbon Neutral Program Emissions (kilotonnes)	30	30	29
Clean Energy (percentage)	93	93	93

FOSTER ECONOMIC DEVELOPMENT

	F2012 TARGET	F2013 TARGET	F2014 TARGET
TBO	TBA	TBA	TBA

MAINTAIN COMPETITIVE RATES

	F2012 TARGET	F2013 TARGET	F2014 TARGET
Competitive Rates	1 st Quartile	1 st Quartile	1 st Quartile
Net Income (\$ million)	611	584	626
Operating Costs (\$ million)	908	875	931
Debt to Equity (percentage)	80/20	80/20	80/20

ENGAGE A SAFE AND EMPOWERED TEAM

	F2012 TARGET	F2013 TARGET	F2014 TARGET
Employee Engagement (percentage)	62	N/A	66



STRATEGIES IN THE 2010/11-2012/13 SERVICE PLAN:

- Include safety in the design of any new construction or reconstruction of operating systems and facilities;
- Identify hazards and barriers in all work-planning activities and the development of work procedures;
- Increase the integration of job-safety planning into day-to-day work;
- Promote the practice of job observation to ensure the effectiveness of work planning and procedures;
- Review barriers and their effectiveness when investigating incidents that have occurred; and,
- Continually improve safety-management systems and the risk-management framework, to improve productivity and performance.

EMPLOYEE SAFETY

BC Hydro was tragically reminded of the importance of safety when on August 16, 2010, electrician Brandon Beday died in a workplace accident in Cranbrook. Following this event, BC Hydro initiated a multifaceted Safety Action Plan with the goal of understanding and advancing the state of safety at BC Hydro. A thorough investigation and analysis of the fatal incident was carried out, as well as a review of previous incidents at BC Hydro. This externally-led exercise highlighted a number of underlying causes that together allowed the incident to occur, and that may also be symptomatic of larger systemic issues.

A Safety Taskforce representing operational groups was formed, with the goal of understanding why BC Hydro continues to experience serious injuries. The group has reviewed past studies and reports, consulted with internal and external subject matter experts, held interactive discussions with over 800 employees, and visited other companies in

hazardous industries to learn from best practices. The Taskforce will provide recommendations in mid-2011.

INJURY STATISTICS

The Severity rate of 22.2 is higher than last year and higher than the Canadian Electricity Association (CEA) Severity Composite rate. The Severity rate is related to the number of days lost due to injury, and does not include data on fatal incidents. The All Injury Frequency (AIF) reflects the number of medical aid events and disabling injuries. While the present AIF level of 1.7 is better than the CEA composite rate and the industry average as reported by WorkSafeBC, it did not meet the ambitious target of 1.3.

PUBLIC SAFETY

In fiscal 2011, BC Hydro delivered 198 electrical safety workshops to over 2,900 trades workers and 32 workshops to over 400 first responders (firefighters, police, ambulance attendants). In partnership with the Ministry of Forests, BC Hydro provided electrical safety training to forest firefighters across the province. BC Hydro continued advertising to promote Three Keys of Electrical Safety, in order to increase awareness among trades workers. BC Hydro also visited 157 construction sites in 30 communities across B.C. to provide trade workers with electrical safety materials and inform them of BC Hydro's electrical safety training.

BC Hydro's Youth and Education team delivers energy conservation, electrical education and safety programs to students and teachers. In fiscal 2011, this group delivered resource materials for the Grade 2 'Energy Detectives' program to 258 teachers in 42 of 60 school districts, 'Energy Connections' for Grade 6 students was delivered to 412 teachers in 41 school districts and the 'Electrical Safety for Trades Students' was delivered to 22 instructors and 37 classes in five post-secondary trades schools. Electrical safety scenarios have been developed for high school audiences and will be published on BC Hydro's new FirstWave website in fiscal 2012.



PEOPLE

STRATEGIES IN THE 2010/11-2012/13 SERVICE PLAN:

- Manage our staffing levels appropriately to ensure our workforce has an effective complement of regular and temporary employees, while at the same time leveraging our contracted and outsourced service providers in a safe and efficient manner;
- Provide an appropriate balance of competitive cost-efficient compensation, benefits and employee wellness programs to attract and retain our employees;
- Focus our outreach activities to attract a diverse pool of qualified applicants (this includes strengthening our partnerships with educational institutions, regulatory bodies and agencies that support under-represented groups);
- Use people-centric technologies to deliver human capital support services in a more streamlined and efficient way; and,
- Engage employees so that they are motivated to achieve great things on multiple levels—for themselves, our company, and our province.

HIGHLIGHTS

The most significant event in fiscal 2011 was the integration of employees from the former BCTC organization into BC Hydro's workforce and the corresponding restructuring to better align the organization with the objectives of the *Clean Energy Act*.

BC Hydro was once again recognized as one of Canada's Top 100 Employers, one of B.C.'s Top Employers, one of the best Diversity Employers as well as one of the best employers for

new Canadians. Over the last five years, we have increased our representation of both women (by 20 per cent) and visible minorities (by 50 per cent) working at BC Hydro. The demographics are changing and employees are younger—just over 40 per cent of employees were born after 1970, and employees born since 1979 make up the fastest growing segment of our workforce.

Nevertheless, the retirement eligibility of our employees remains a moderate concern, with more than 25 per cent of our current workforce eligible to retire within the next five years. To offset this risk, we focused on a variety of programs and initiatives to develop and retain our workforce talent. These included numerous trainee programs, health and wellness programs, new social media recruitment efforts, and workforce planning and vacancy management processes.



Above: Community Outreach representative Susan Lim engages a young customer at a Vancouver Canadians game night.

RELIABILITY (CUSTOMER)

Nicola Substation, near Merritt

STRATEGIES IN THE 2010/11-2012/13 SERVICE PLAN:

- Increase the investments in reliability targeted projects that close the gap between customer expectations and circuit performance to turn the trend of decreasing system reliability performance;
- Continue to strengthen those circuits that are most susceptible to storms and to provide operational agility to reduce restoration time following an outage;
- Increase the level of distribution automation and invest in more flexible system configuration in targeted areas to move the system towards a smarter grid;
- Invest in projects such as the Smart Metering and Infrastructure Program, the Smart Grid Program, Distribution Management System (DMS), Enterprise Geographic Information system (EGIS) and other Business Intelligence solutions; and,
- Invest in the development of additional innovative customer solutions to assure the capability of the system to meet future needs.

HIGHLIGHTS

In fiscal 2011, CAIDI (customer average interruption duration index) and SAIFI (system average interruption frequency index) improved significantly over fiscal 2009 and fiscal 2010, while CEMI-4 (customers experiencing four or more interruptions) declined. CAIDI and SAIFI improvements were mainly due to a reduction in outages related to the transmission system, our substations, motor vehicle accidents and equipment failures. Meanwhile, CEMI-4 declining performance was due to repeated outages in areas throughout the Lower Mainland and Sunshine Coast, and in Terrace, Salmon Arm and Vernon, which were largely attributed to substation outages, fallen trees and planned outages for safe line work.



Photo Credit: Cara Grimshaw

Above: On the lines at the 2010 Safety Rodeo in Surrey

In fiscal 2011, we experienced 13 major weather-related events, the highest number in the past ten years, causing substantial power interruptions to customers in the Lower Mainland, Vancouver Island and Northern Interior. These storms accounted for 735,000 customer interruptions and 3.6 million lost customer hours. The most severe storm occurred on April 2, 2010 and interrupted power supply to Lower Mainland and Vancouver Island customers, resulting in 200,000 customer interruptions and more than 1.1 million lost customer hours.

BC Hydro increased efforts to improve reliability, investing in reliability-driven capital projects for over 150 circuits. To mitigate the impact of trees falling on lines, the Distribution Vegetation Hazard Tree Program addressed 146 distribution

circuits. Meanwhile, work continued as part of the system resiliency program to increase the ability of the distribution system to withstand or avoid outages during storm events by increasing re-routing options in the system. In fiscal 2011, improvements were made to 70 distribution circuits in storm vulnerable areas.

Significant investments were also carried out on our vast transmission network. In fiscal 2011, we prioritized painting steel towers to control corrosion and extend the life of the structures, and performed ongoing vegetation control and maintenance on rights-of-way. BC Hydro also completed the \$60 million Central Vancouver Island Transmission project on time and under budget, and broke ground on the Vancouver City Central Transmission project (see page 103).

Ensuring all B.C. communities share the benefits of reliable electricity remained a key priority. In fiscal 2011, BC Hydro constructed a permanent generating station in Toad River and received BCUC approval to construct new generating stations to serve three more communities (Fort Ware, Tsay Keh and Ethlateese). In addition, BC Hydro completed the grid connection for four Southern St'at'imc communities in the Lillooet Valley. BC Hydro is engaged with 18 remote communities, of which 10 are First Nations, towards their electrification.

CUSTOMER GROWTH

Approximately 22,400 net new customers were added in fiscal 2011, compared to a year earlier when there were approximately 29,700 net new customers. The major contributor to decreased net customer growth was the residential housing sector. The Lower Mainland, in particular, had a slower pace of construction projects after the 2010 Olympics, but picked up again in the latter part of the year. Conversely, the Northern Interior saw an increased level of construction activity.



SMART METERING PROGRAM AND SMART GRID PROGRAM

Smart metering and smart grid developments are prevalent throughout the world and, like many other utilities, BC Hydro is modernizing the electrical grid and metering systems. This will enable customers to actively manage their energy choices, adopt new energy conservation solutions and benefit from an electric grid that is modern, reliable, safe and cost effective.

The Smart Metering Program is a critical infrastructure upgrade that begins with replacing approximately 1.8 million existing meters with a modern, fully integrated smart metering system. In addition to improving safety and reliability, the Smart Metering Program will lead to enhanced customer service, reduced electricity theft, improved operational efficiency and reduced wasted electricity. Smart meters will also support greater customer choice and control, by enabling customers to use in-home feedback tools when they become available. Implementation is scheduled to begin in mid-2011.

During fiscal 2011, the Smart Metering Program procured key technology and service providers, published the program business case, and implemented further aspects of planning and delivery. BC Hydro also undertook a comprehensive customer education and engagement strategy.

Left: Smart meters will replace approximately 1.8 million existing hydro meters across B.C. as part of BC Hydro's Smart Metering program. The project will also reduce waste, increase efficiency, and improve overall safety and reliability across the province.

Common, they've been designed, from the ground up, for maximum energy efficiency. And with BC Hydro Power Smart incentives, making it all happen is easier than ever.

CUSTOMER SATISFACTION

STRATEGIES IN THE 2010/11-2012/13 SERVICE PLAN:

- Increase the efficiency, consistency and quality of BC Hydro's customer experience through the integration of all customer channels, including the website, contact centre and self-service options;
- Proactively support customers and encourage the adoption of solutions that contribute to conservation and assist customers in reducing their energy costs;
- Strengthen our understanding of customers' needs and expectations through customer engagement, targeted segmentation and benchmarking; and,
- Ensure employees understand how each individual contributes to delivering customer value and satisfaction.

HIGHLIGHTS

BC Hydro achieved an 89 per cent overall customer satisfaction rating for fiscal 2011. Satisfaction remained highest among key accounts at 93 per cent, followed by small/medium business at 88 per cent and residential at 87 per cent. Event and rate related announcements that drive fluctuations continue to be managed through proactive customer communications and timely issue resolution. BC Hydro's ability to provide reliable power and our commitment to customer service remain our key strengths.

Benchmarking results to date demonstrate BC Hydro compares well against both non-electric utility service providers and other electric utilities. Most recently, in the JD Power 2010 Canadian Electric Utility Residential Customer Satisfaction Study, BC Hydro ranked second out of seven other Large Segment Utilities in Canada, based on an overall satisfaction.



Community Outreach representative Dan MacQueen advises a customer about the New Construction Program at the Architectural Institute of B.C. Conference in Vancouver.

CUSTOMER SATISFACTION RESULTS

BC Hydro has been focused on ensuring our service channels are robust enough to support key initiatives, including conservation rates as well as keeping pace with new technology trends. For example, the implementation of key online self-serve functionality, including enhanced online billing options, has enabled BC Hydro to provide additional customer choice, maximize lower cost channels, and drive paperless uptake, which results in overall operational efficiencies.

Throughout fiscal 2011, BC Hydro focused on supporting stakeholder engagement activities targeting BC Hydro's largest customers, including participation in both general and industry-specific events. BC Hydro continued to increase its level of participation with industry associations including the Association of Major Power Customers of British Columbia, Retail BC, Building Owners and Managers Association of B.C. and others to enhance communication on a variety of initiatives, such as conservation, rates and system reliability.

ELECTRICITY RATES

On March 1, 2011, BC Hydro filed its fiscal 2012-2014 Revenue Requirements Application with the BCUC, requesting annual average rate increases of 9.73 per cent in fiscal years 2012, 2013 and 2014. The rate increases are attributable primarily to higher amortization and finance charges due to increases in capital expenditures required to maintain an aging asset base, build new infrastructure, and meet customer growth, as well as increases in domestic energy costs due to higher prices for new sources of firm supply. The BCUC approved an interim rate increase of 8 per cent effective May 1, 2011. The BCUC also suspended the regulatory process until an amended

application is filed by BC Hydro in late summer/early fall 2011 which will be informed by the results of a review of BC Hydro undertaken by Government in the spring of 2011.

ENGAGING OUR CUSTOMERS

FIRST NATIONS

Building strong and sustainable relationships with First Nations remains key to maintaining a reliable supply of energy throughout the province. During fiscal 2011, we have continued to consult multiple First Nations around the province on BC Hydro's 2011 Integrated Resource Plan and our generation and transmission capital projects.

BC Hydro is implementing aboriginal procurement strategies on a number of capital projects to assist First Nations communities wishing to take advantage of economic opportunities. For example, last year we signed an agreement with the Shuswap Indian band and with the Ktunaxa Nation Council for various services related to the Columbia Valley Transmission project. The Shuswap, Simpcw and Little Shuswap have also received contracts through the Kinbasket Integrated Project Management company to perform services in preparation for the Mica Units 5 and 6 upgrade project.

BC Hydro also continues to provide essential skills training and certifications to Aboriginal communities participating in economic opportunities associated with our capital projects. Examples from the past year include training boot camps with the Okanagan and Splatshin First Nations for work on the Mica 5 and 6 generation project upgrade and with the Kitsumkalum, Kitselas and Gitxan First Nations to train for jobs on the Northwest Transmission Line.

Ensuring all communities in B.C. share in the benefits associated to our heritage resources is a key priority. Members of the St'at'imc and BC Hydro gathered in November to celebrate the completion of a project connecting four First Nations communities in the Lillooet Valley to BC Hydro's electrical grid. The completion of the Southern St'at'imc Grid Connection project means the communities of Skátin, Samahquam and Xa'xtsa (at Port Douglas and Tipella) will no longer have to rely on costly and unreliable diesel powered generators and can now focus on developing new economic opportunities utilizing clean energy.

Although BC Hydro signed a number of Benefits Agreements with First Nations on generation and transmission projects during fiscal 2011, BC Hydro is facing increased challenges from First Nations in the legal and regulatory environment. As Treaties are implemented, BC Hydro will need to continue to align its consultation and operational practices to the treaty terms, adding additional complexity to our business.

COMMUNITY AND STAKEHOLDER RELATIONS

Building and maintaining strong relationships with communities and stakeholders is essential to creating a local environment conducive to allowing BC Hydro to efficiently maintain its electrical infrastructure and creating a conservation culture.

In fiscal 2011, BC Hydro was involved in a wide range of issues across the province: dealing with power outages, contaminated sites, boat launches, vegetation management concerns, water use plans and other customer relations concerns. Meanwhile, BC Hydro engaged British Columbians on BC Hydro's capital projects around the province, and several key initiatives, such as the Integrated Resource Plan, the Large General Service Rate, and the distributed generation strategy.

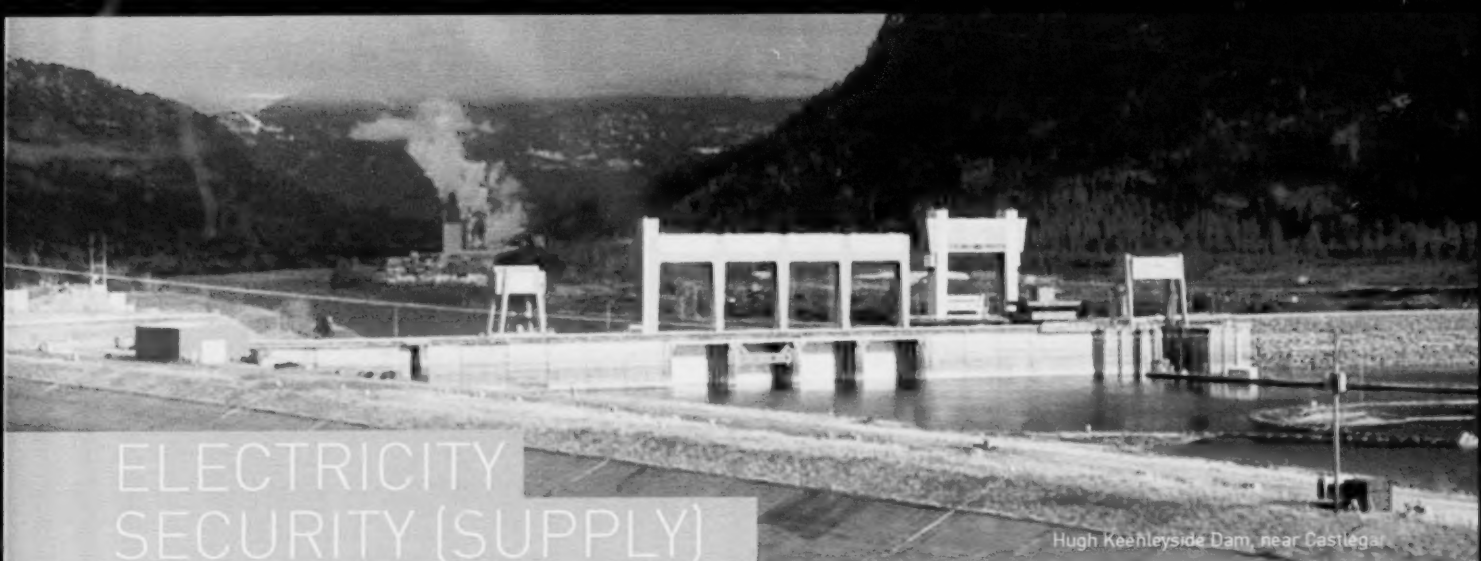
BC Hydro also engages with ratepayers through a wide range of channels and technologies. The BC Hydro Facebook page now includes information on capital projects, safety and news in addition to Power Smart. We conducted several awareness campaigns to increase our social media audience and today our channels reach over 15,000 followers and include Facebook and two Twitter channels.

Community outreach staff educated British Columbians about energy conservation and energy use in 104 communities throughout British Columbia, where they attended 4,645 events. These included community events, sponsorships, workplace conservation presentations, retail product and program education, and presentations in industrial and commercial offices supporting energy manager programs.

BC Hydro further reached an estimated 29,000 students in 403 schools in 49 districts through delivery of energy conservation school programs. And even more community connections were made through the Invent the Future 2010 contest. BC Hydro's fourth annual youth campaign received 133 entries, nearly 7,000 conservation pledges by youth, and over 28,000 unique visitors to the campaign website.

In fiscal 2011, BC Hydro supported community-based organizations and registered charities with \$1.0 million in donations and \$1.5 million in sponsorships including \$135,000 awarded through scholarships and endowments to B.C. students. BC Hydro also continued to support the BC Hydro Employees Community Services (HYDRECS) Fund, an employee- and retiree-managed fund that supports Canadian charities in the health and social services sector, and the BC Hydro Power Pioneers Association, a group of over 5,000 BC Hydro retirees.

In recognition of BC Hydro's 50th Anniversary, the Power Pioneers released a new book, *Voices from Two Rivers*, to share the first-hand stories of those who worked on the Peace and Columbia Rivers.



ELECTRICITY SECURITY (SUPPLY)

Hugh Keenleyside Dam, near Castlegar

STRATEGIES IN THE 2010/11-2012/13 SERVICE PLAN:

- Meet customer load and reliability requirements in the short term through a combination of Heritage and IPP generation, customer load curtailment contracts and imports;
- Manage our peak load supply reliability by minimizing the amount of generating unit outages during the winter peak period;
- Implement capital projects to refurbish, replace and upgrade our Heritage Assets (e.g., commissioning the fifth unit at the Revelstoke generating station);
- Secure firm market energy (electricity and natural gas) for domestic peak-load periods;
- Continue our load curtailment programs with customers as contingencies for winter capacity supply; and,
- Advance various power acquisition processes for future incremental supply.



HIGHLIGHTS

BC Hydro is committed to maintaining a secure supply of electricity for our customers. To achieve this, BC Hydro closely monitors factors such as weather and snowpack forecast, reservoir levels, customer loads, market conditions and the availability of Heritage and independent power producers generating units to supply power. Energy and capacity studies based on these factors help form decisions to prioritize operation of specific generating plants, identify necessary contingency resources and set threshold prices for the purchase or sale of energy.

Generation from BC Hydro's predominantly hydroelectric system is dependent upon precipitation and reservoir storage operations. During fiscal 2011, system inflows were only 86 per cent of average. BC Hydro reservoirs have been managed such that the combined storage in BC Hydro reservoirs at the end of fiscal 2011 was 99 per cent of average, with the Williston and Kinbasket reservoirs at 89 per cent and 110 per cent of average, respectively. In comparison, combined system storage at the end of fiscal 2010 was 94 per cent of average.

In addition to the amount of water in our reservoirs, the availability and reliability of our generating facilities contributes to our ability to meet customer demand. Availability reflects the percentage of time a generating unit is in commercial service and available to produce energy. BC Hydro measures generation reliability through the availability of generators for service, particularly during the winter period when customer demand is at its peak.

Left: Vancouver Island's Strathcona Dam at night, as seen by the construction crew who worked 24/7 for five months to ensure the intake tower received necessary seismic upgrades.

MEETING DEMAND

During fiscal 2011, BC Hydro placed into service a fifth generating unit at the Revelstoke Generating Station, which provides an additional 500 MW of generating capacity and 94 GWh of additional electricity production due to a more efficient generator design. Stator replacement and capacity increase projects at the GM Shrum Generating Station provided a further 17 GWh of energy per year. In fiscal 2011, BC Hydro invested \$421 million towards its Heritage Generating Assets, and achieved on time and on budget completion of major projects such as: Revelstoke Unit 5, the GM Shrum Stator Replacement Project; and the Strathcona Intake Tower Anchoring Project.

BC Hydro plans to have enough firm resources to meet the peak domestic load nine years out of 10. In the past, BC Hydro would typically need to rely on market purchases and other contingent resources in the winter months to ensure adequate capacity was available to meet forecast peak domestic loads. The peak load for fiscal 2011 of 9,790 MW occurred on November 23, 2010.

INTEGRATED RESOURCE PLAN

Currently under development, the Integrated Resource Plan (IRP) is a 20-30 year plan for meeting B.C.'s long-term power needs consistent with provincial energy objectives including electricity self-sufficiency, reduced greenhouse gas emissions and economic development. B.C.'s energy objectives are formalized in the *Clean Energy Act*, which also requires BC Hydro to prepare the IRP for submission to the Ministry of Energy. In fiscal 2011, BC Hydro focused on developing and assembling the technical data necessary to construct the IRP, as well as consulting with First Nations and the public on the development of the plan.

Work on this plan continues, and it is expected to be submitted to the Ministry of Energy by December 2012, after which the government will review the plan and decide whether to approve it.

INDEPENDENT POWER PRODUCERS

BC Hydro's strategy includes buying energy to meet B.C.'s domestic needs. This electricity procurement plays a critical role in reaching the *Clean Energy Act* goal of achieving electricity self sufficiency by 2016. Last year, BC Hydro made considerable progress in advancing three acquisition opportunities for independent power producers: the Clean Power Call, targeted at purchasing cost-effective, clean or renewable firm energy from larger projects using proven technologies; the Standing Offer Program, for projects using clean, renewable or high-efficiency cogeneration with a capacity greater than 50 kW up to 10 MW; and, Bioenergy Initiatives, for projects that utilize wood fiber and other biomass fuel sources.

The Clean Power Call, which was issued in June 2008 and completed in August 2010, resulted in the award of 25 Electricity Purchase Agreements (EPAs) for 27 projects representing 3,266 GWh/year of firm energy and 1,168 MW of capacity. The Standing Offer Program, which was launched in April 2008, has received 27 applications to date, with six applications resulting in EPAs and 17 applications proceeding through the review process. The Program was modified in January 2011, following its first two years of operation with changes to energy pricing and maximum project size (up to 15 MW).



Left: General tradesperson Lawrence Alexander outside of his workplace, John Hart Generating Station near Campbell River

The Community-Based Biomass Power Call was issued in April 2010 in the form of a Request for Qualifications which was concluded in December 2010 with the selection of six proposals. Negotiations are underway with the objective of concluding EPAs during fiscal 2012. The Bioenergy Phase 2 Call was launched in May 2010 for larger-scale biomass projects. In January 2011, BC Hydro short-listed eight proposals for further negotiation. The Integrated Power Offer was launched in October 2009 to support pulp and paper companies that are eligible for federal Green Transformation Program funding. To date, agreements have been executed with four pulp and paper customers for about 800 GWh/year of energy.

SITE C CLEAN ENERGY PROJECT

The Site C Clean Energy Project (Site C) is a proposed third dam and hydroelectric generating station on the Peace River in northeast B.C. The project is being proposed as part of BC Hydro's overall program to invest in and renew the province's electricity system. Investments like Site C are required to ensure a clean, reliable and cost-effective supply of electricity to British Columbians as the province grows.

Consistent with best practices for large infrastructure projects, BC Hydro adopted a multi-stage approach for the planning and evaluation of Site C. This process provides the Province with multiple milestones for assessing the project and deciding whether to proceed to the next stage. The project is currently in Stage 3 Environmental and Regulatory Review, which includes a thorough independent environmental review by both federal and provincial environmental assessment agencies.

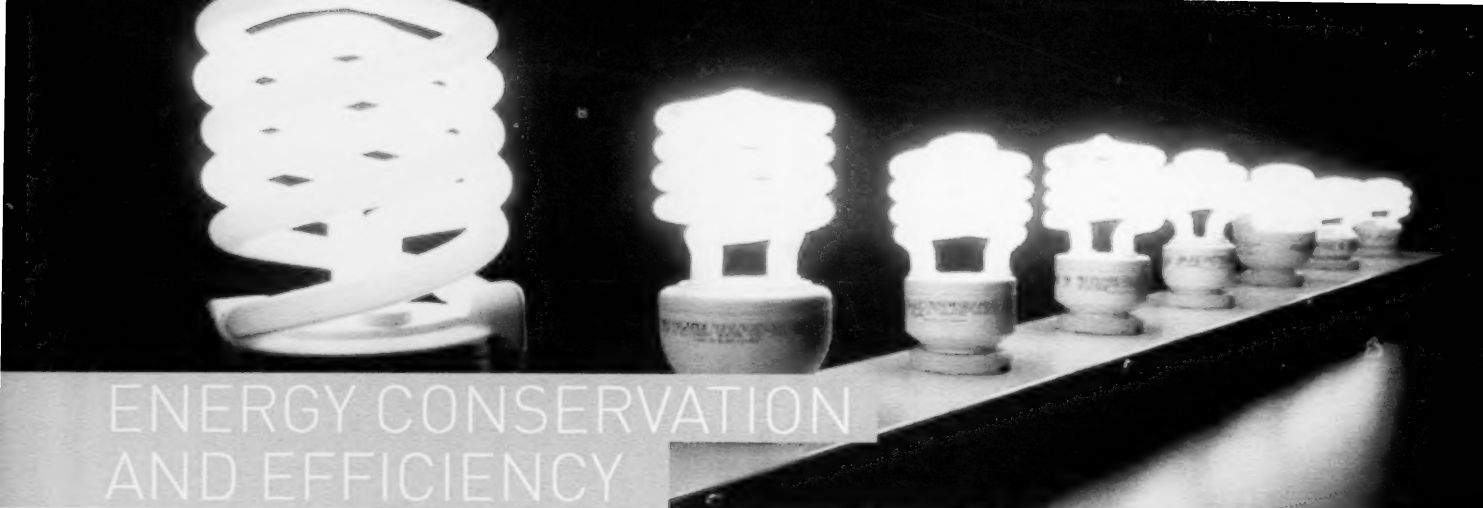
The Site C project has the following attributes:

- Site C would help meet future electricity needs by providing up to 1,100 MW of capacity and 5,100 GWh of energy each year—that's enough energy to power more than 450,000 homes per year in B.C.
- It would be a source of clean and renewable electricity for more than 100 years.
- Site C would produce among the lowest levels of greenhouse gas emissions, per gigawatt hour, compared to other electricity generation options.
- The project would facilitate the development of clean and renewable energy sources by providing a reliable back up to intermittent resources, such as wind.
- As the third project on the Peace River, Site C would take advantage of water already stored in the Williston Reservoir. This means that Site C would generate approximately 35 per cent of the energy produced at the W.A.C. Bennett Dam, with five per cent of the reservoir area.
- Site C would be among the most cost-effective options to help meet B.C.'s future electricity needs, generating electricity at a cost between \$87 and \$95 per megawatt hour.
- Site C would create approximately 7,000 person-years of direct construction employment during the seven-year construction period, and up to 35,000 direct and indirect jobs during the development and construction phases.

The Site C project requires environmental certification and other regulatory permits and approvals before it can proceed to construction. In addition, the Crown has a duty to consult and, where appropriate, accommodate Aboriginal groups.



Left: Artist rendering of proposed Site C Dam design



ENERGY CONSERVATION AND EFFICIENCY

STRATEGIES IN THE 2010/11-2012/13 SERVICE PLAN:

- Develop and implement new electricity rate structures that encourage conservation, for example, the Large General Service conservation rate;
- Support the development and adoption of new regulations for energy efficient products and technologies and new building codes and standards;
- Engage and partner with communities to be leaders in making energy efficiency a way of life and doing business;
- Support community energy planning, pursue opportunities and take a more integrated approach to link energy supply and demand-side activities within communities;
- Continue to evolve our portfolio of successful Power Smart programs;
- Continue to identify and implement process improvements in Power Smart to enable the delivery of significantly more customer conservation projects, with reduced operational resource requirements; and,
- Stimulate innovation through the advancement of new energy-efficiency technologies and practices.

HIGHLIGHTS

Conservation, also called demand-side management, is a critical part of BC Hydro's strategy to address the electricity gap, reduce energy costs and increase energy efficiency. In fiscal 2011, we continued to implement our 20-year Demand-Side Management (DSM) Plan. While BC Hydro's traditional approach to demand-side management has succeeded in driving technological change for energy efficiency, in fiscal 2011, BC Hydro has also been actively engaging British Columbians so that efficiency and conservation became even more of a way of life and a way of doing business.

There are many integral parts of the DSM plan. These include increasing public awareness, and providing education and information on energy efficient technologies and conservation actions. We also engage communities and municipal leaders to include energy efficiency in their plans, and promote innovative technologies to reduce our electricity consumption.

BC Hydro also supports the three levels of government in the development and implementation of energy-efficiency policies and regulations. In fiscal 2011, provincial energy efficiency regulations relating to three electrical products came into effect for: electric water heaters, general service lamps and large motors, all of which now must meet higher efficiency requirements.

CONSERVATION CULTURE

Through our overarching Power Smart campaign, we encouraged all British Columbians to be more conscious of energy waste. Through Team Power Smart, BC Hydro has continued to work with a number of highly recognizable personalities to make the most impact when delivering the energy conservation message through a multi-channel approach, leveraging digital, social, print, TV and radio platforms.

ENERGY EFFICIENCY TECHNOLOGY

BC Hydro assessed a number of emerging technologies and practices to help customers reduce electricity use. A variety of demonstration projects and field assessments were completed in collaboration with our customers, including a small-scale anaerobic digester at Bakerview EcoDairy in Abbotsford and field trials of LED street lighting and adaptive controls in three municipalities: Vancouver, Coquitlam and Port Coquitlam.

POWER SMART

In fiscal 2011, significant developments were made towards Power Smart residential, business and industrial programs.

- The Power Smart Lighting Program resulted in our partner London Drugs now exclusively stocking Energy Star® labelled lighting fixtures; further, Power Smart is now offering incentives and promotional support for Energy Star labelled LED lighting products.
- Our Low Income Program provided more than 20,000 Energy Savings kits and 1,600 free energy audits to low income British Columbians.
- Power Smart successfully hosted a conservation training conference and a recognition event for business customers—the Power Smart Forum and the Power Smart Excellence Awards, respectively.
- New program initiatives were launched for the New Construction Program, including a tiered incentive model. BC Hydro and Canada Green Building Council collaborated to align the technical requirements of the New Construction Program with LEED—New Construction green building rating system.



Above: Community Outreach representative Laura Mills engages a young family at the Sockeye Salmon Fest in Chase.

POWER SMART LOCAL GOVERNMENT AND COMMUNITIES

BC Hydro works directly with local partners, community groups and organizations to integrate energy conservation into community events and initiatives. BC Hydro also works with local governments to help them embed energy-use and conservation into their community planning processes and promote Power Smart programs through their channels of influence. In fiscal 2011, we successfully developed and piloted, with seven communities, a new offer targeting small and mid-sized (under 20,000 population) local governments in B.C. with a starting-point for community energy and emissions planning. BC Hydro has also partnered with a number of communities to advance energy efficiency and renewable and clean energy technologies.

CONSERVATION RATES

BC Hydro's DSM plan includes the use of rate structures designed to encourage the efficient use of electricity and conservation. BC Hydro implemented the new Large General Service (LGS) conservation rate structure in January 2011, along with a comprehensive communication and support plan for these industrial and commercial customers. Implementation of the new Medium General Service (MGS) conservation rate structure is underway, and the first group of MGS customers will transition to their new rate structure on April 1, 2012.

One of six short-eared owls that was rescued from the Arrow Lakes Reservoir near Revelstoke, rehabilitated and then released into the Creston Valley Wildlife Management Area. The owls, chicks at the time, were under the threat of rising water levels and BC Hydro and various partners worked together to help them.

CLIMATE CHANGE AND ENVIRONMENTAL IMPACT

STRATEGIES IN THE 2010/11-2012/13 SERVICE PLAN:

- Identify and manage the most significant risks associated with the environmental impact of our current operations, as well as the regulatory risks associated with environmental regulation and legislation, including species and ecosystems at risk, fisheries and wildlife management objectives;
- Develop and implement an action plan to identify, quantify and execute greenhouse gas (GHG) reductions from our vehicle fleet and buildings, recognizing that remaining emissions need to be offset by purchasing high-quality B.C.-GHG offsets from the Pacific Carbon Trust to meet B.C.'s carbon neutral goal for the public sector;
- Identify environmental impact reduction opportunities, including GHG emissions, and conduct triple bottom line, structured decision-making to implement projects that meet environmental, social and economic objectives and support the Environmental Impact Goal and the Province's climate action targets;
- Ensure BC Hydro has a plan in place to meet our compliance obligations under the *Greenhouse Gas Reduction (Cap and Trade) Act* and forthcoming regulations under the *Environmental Management Act*;
- Assess options to adapt our operations and activities to the potential physical impacts of climate change;
- Understand the ecosystem services that support our business, such as the natural cycles in climate and water, and how a credible internal offset system might be applied when environmental impacts cannot be avoided or reduced; and,
- Increase employee awareness of and accountability for environmental objectives.

HIGHLIGHTS

During fiscal 2011, BC Hydro continued to work on measuring performance and implementing our Climate Action Strategy and Environmental Impact Goal to have no net incremental environmental impact by 2024 as compared with 2004. We also developed a new strategic objective—Mind Our Footprint—to advance a sustainable energy future in B.C. by carefully managing our impacts on the environment and fostering an energy conservation and efficiency culture.

Our environmental activities and performance in fiscal 2011 included:

- Meeting new mandatory provincial greenhouse gas reporting requirements under the B.C. *Cap and Trade Act*;
- Achieving carbon neutrality under the B.C. Carbon Neutral Government Regulation;
- Assessing the opportunities and implications for BC Hydro associated with the new provincial *Zero Net Deforestation Act* and *Water Act* modernization;
- Continuing to identify and remove polychlorinated biphenyls (PCBs) from our system in accordance with federal PCB Regulations; and,
- Developing a suite of environmental attributes for use in reviewing resource options for the Integrated Resource Plan.

Also in fiscal 2011, reported environmental incidents decreased by eight per cent from the previous year. The majority of the 353 reported incidents had a low impact environmental consequence, as measured using our enterprise-wide risk matrix and no moderately high or above level environmental consequence events were reported.

ENVIRONMENTAL MANAGEMENT

BC Hydro's Environmental Risk Management and Reporting Framework, introduced in fiscal 2009, provides a structured approach to environmental risk assessment and is an integral component of our Environmental Management System (EMS). Implementation of the framework continued throughout fiscal 2011 with the development of hazard registries and the identification and implementation of barriers to reduce our environmental risks, which help prevent environmental impacts. BC Hydro will continue to implement and refine the use of the Environmental Risk Management Framework in fiscal 2012.

CLIMATE ACTION

BC Hydro has a Carbon Neutral Action Plan to ensure we meet our regulatory obligations as a B.C. public sector organization. We developed a Fleet Greening Plan to reduce GHG emissions from the vehicle fleet through eco-efficient driver training, increasing the use of biodiesel and increasing the number of green vehicles in the fleet. To manage building energy use emissions, we have set energy efficiency targets for new construction and renovation projects, and are implementing an interior space renovation program at our head office facilities, where we estimate the completed floors are achieving 30 per cent overall energy savings and 50 per cent energy savings per occupant. During fiscal 2011, we opened a new LEED Gold district office in Port Alberni and included extensive energy efficiency improvements in the renovation of the Chetwynd district office.

BC Hydro has expanded the number of green vehicles in the fleet, including 130 hybrids and two Mitsubishi i MiEV cars—North America's first production-ready highway-capable electric car.

Plug-In Electric Vehicles Program

BC Hydro worked with auto manufacturers and partners to demonstrate electric vehicles in B.C., adding agreements with Toyota and GM/Chevy in fiscal 2011. BC Hydro initiated a formal cross-company Plug-In Electric Vehicle Working Group to coordinate and implement the BC Hydro Electric Vehicle (EV) Strategy.

Contaminated Site Management

The Rock Bay Remediation project in Victoria is BC Hydro's most complex historic contaminated site, with contamination that originates from BC Hydro predecessor companies dating back to the 1860s. We have removed a significant portion of the coal tar related contamination on our site. In fiscal 2011, BC Hydro removed all PCB contaminated soils that were

remaining on our own properties and worked with Transport Canada towards a resolution of the balance of the residual coal tar contamination on their lands. BC Hydro is developing plans to address the remaining contamination.

WATER MANAGEMENT

Water Use Planning

BC Hydro's Water Use Planning (WUP) process engaged public stakeholders, fisheries agencies, First Nations, and the provincial government in reviewing the water management of our facilities, and made recommendations for optimizing economic, social, and environmental benefits. Each WUP is implemented following an Order from the provincial Comptroller of Water Rights and BC Hydro has received Orders for 22 of the 23 WUPs developed. The Bridge River Order was recently issued in fiscal 2011 and the remaining WUP—Campbell River—is anticipated to be ordered in fiscal 2012.

The Water Licence Requirements Program is responsible for delivering the monitoring studies to assess the efficacy of the water management changes and physical works contained in the Comptroller of Water Rights Order. The program, which extends over 20 years, is currently in the three year peak of implementation with 61 per cent of planned projects currently underway.

FISH AND WILDLIFE

The Fish and Wildlife Compensation Program was initiated by BC Hydro to compensate for the impacts to fish, wildlife and their supporting habitats affected by the creation of BC Hydro owned and operated generation facilities. Working with the Province of B.C. and Fisheries and Oceans Canada, BC Hydro provided more than \$7 million in funding in 2010, focused on nearly 65 projects developed to conserve and enhance fish, wildlife and their supporting habitats across the province. Each project is developed and delivered through the collaborative work of the partners, First Nations and government, community and environmental groups.

BC Hydro also directly manages potential interactions with ecosystems and species at risk. Focused species are: Columbia White Sturgeon, Nooksack Dace, Vancouver Island Marmot, Woodland Caribou, Western Screech-Owl, Northern Leopard Frog and Great Blue Heron. BC Hydro remains actively involved in white sturgeon recovery through the delivery of monitoring and physical works projects, and in fiscal 2011 identified new spawning sites and documented high success rates of juvenile sturgeon stocked during the annual public release.



FINANCIAL TARGETS

Harewood West Substation, Vancouver Island

STRATEGIES IN THE 2010/11-2012/13 SERVICE PLAN:

- Manage the short-term cost of energy by carefully deciding when to buy electricity from outside sources and when to generate it ourselves;
- Manage the long-term cost of energy by conducting competitive market calls for electricity from IPPs in order to get the best price for electricity;
- Look for alternative sources of new energy at low cost;
- Closely monitor economic conditions and their impact on our business and adjust our activity as necessary in response;
- Continue with productivity projects to manage costs including rationalizing IT systems, enhancing procurement and work management processes;
- Implement our 20-year Demand-Side Management plan;
- Increase our ability to use the flexibility of the Heritage Assets (e.g. non-treaty storage, more DSM, more bioenergy, large hydro capacity projects);
- Pursue tougher codes and standards earlier to reduce the supply gap;
- Improve procurement methods for new and renewable sources of energy;
- Reduce General and Administration costs, net of non-current pension costs, over the coming years;
- Achieve lower capital expenditures through enhanced project management and procurement processes;
- Optimize transmission planning; and,
- Obtain better value from our third party contracts.



Above: Transmission lines 2L010 and 2L057 (double circuit) and 2L006 and 2L043 in Delta, B.C.

HIGHLIGHTS

BC Hydro achieved net income of \$589 million for fiscal 2011. As compared to Service Plan targets for the year, which were reforecast in the February 2011 filing of BC Hydro's F2011/12-2013/14 Service Plan to reflect the integration of the British Columbia Transmission Corporation (BCTC) with BC Hydro on July 5, 2010 and the impact of the Negotiated Settlement Agreement (NSA) on BC Hydro's F2011 Revenue Requirements Application (RRA), net income exceeded the revised target of \$569 million by \$20 million. This was primarily due to higher miscellaneous domestic revenues for which variances to plan are not transferred to regulatory deferral accounts. As compared to the original net income target of \$609 million, reported in BC Hydro's F2010/11-2012/13 Service Plan filed in February 2010, which did not reflect the unplanned impacts of the BCTC integration or the NSA, net income was \$20 million lower. This resulted in a return on equity of 14.13 per cent compared with a target of 14.37 per cent for fiscal 2011.

FINANCIAL TARGETS

As compared to the revised Service Plan operating cost target which reflects the BCTC integration, NSA impacts on operating costs, and the inclusion of non-current employee future service benefit costs in the performance target measurement, fiscal 2011 operating costs were comparable to the revised target of approximately \$830 million. As compared to the original Service Plan target of \$692 million, operating costs of \$788 million for fiscal 2011 were higher primarily due to the unplanned integration of BCTC.

PROCUREMENT

BC Hydro has three procurement and contract management services teams that operate within the generation, transmission and distribution, and corporate areas of the business. Procurement teams are responsible for ensuring that BC Hydro delivers value for money while meeting all of our statutory and regulatory obligations. Procurement professionals work collaboratively across different areas of the business to standardize procurement solutions and improve supplier relations and internal efficiencies.

Procurement activities generated more than \$20 million in savings and cost avoidance in fiscal 2011 through the execution of comprehensive procurement strategies and contract plans that achieved direct cost savings, operational

efficiencies and other tangible benefits for such categories as: light and medium size vehicles, maintenance, repair and operating supplies, electrical components, IT hardware and software, and medium voltage transformers. In addition, major contracts were established supporting the Mica 5 and 6 capacity expansion as well as the Spillway Gates program.

Over the past year, procurement activity resulting from BC Hydro's extensive capital Regeneration plan have resulted in more than \$2.7 billion in contracts to cover expenditures over the next few years. Of this, more than \$500 million are new blanket agreements, which aggregate BC Hydro's expenditures, realize operational efficiencies for both BC Hydro and suppliers, as well as making it easier for employees to source needed materials and services.

In the fall of 2010, we reviewed our relationships with suppliers in order to develop a better understanding of how we can improve our interactions with suppliers. In the coming year, we will be working on implementing a number of recommendations from the review that are expected to improve our relationships and deliver benefits to both BC Hydro and our suppliers.

SHORT TERM PRIORITY	PERFORMANCE MEASURES	F2009 ACTUAL	F2010 ACTUAL	F2011 TARGET	F2011 ACTUAL	F2012 TARGET	F2013 TARGET	F2014 TARGET
FINANCIAL	Net Income* [\$ millions]	365	447	509*	589	611	584	626
	Operating Costs* [\$ millions] Definition revised for F2012-2014 targets	714	785	692*	788	908	895	931
	Return on Assets (%)	5.8	5.2	6.2	5.6	N/R	N/R	N/R
	Return on Regulatory Equity (%)	11.75	12.49	14.37	14.13	N/R	N/R	N/R
	Interest Coverage	1.72	1.96	2.06	2.05	N/R	N/R	N/R
	Debt to GAAP Equity (%)	81	80	80	80	80	80	80

* As a result of the integration of BCTC with BC Hydro in July 2010, the fiscal 2011 RRA Negotiated Settlement Agreement and changes to the presentation of certain financial statement items, the targets for Net Income and Operating Costs for fiscal 2011 were revised to \$569 million and \$830 million, respectively, as published in BC Hydro's 2011/12-2013/14 Service Plan filed in February 2011. The definition of Operating Costs reflected in the revised target for fiscal 2011 and the targets for fiscal 2012 through fiscal 2014 is "personnel expenses, materials and external services, included in income, less recoveries and capitalized costs." The previous definition, as presented in the table for fiscal 2009 Actual, fiscal 2010 Actual and fiscal 2011 Target and Actual, is "operating costs excluding regulatory account transfers and non-current employee future benefit service costs."

CORPORATE GOVERNANCE

DIRECTORS, OFFICERS AND EXECUTIVE OF BC HYDRO

BC Hydro's organizational structure is designed to integrate former BCTC's business with BC Hydro, ensure we deliver on our strategic objectives, and the ambitious mandate of the *Clean Energy Act*, and facilitate coordination among business functions.

The following chart shows the current organizational structure of the Executive Team.



CUSTOMER AND CORPORATE SERVICES—Responsible for several functions, including Aboriginal Relations and Negotiations, Power Smart and Customer Care, Integrated Resource Planning, the Smart Metering and Infrastructure Program, Economic and Business Development, and the office of the Chief Safety, Health and Environment Officer.

COMMUNICATIONS—Responsible for strategic communications, engagement and outreach that support BC Hydro's key business objectives and help deliver success through relationships.

CORPORATE HUMAN RESOURCES—Responsible for attraction and workforce planning, organizational effectiveness and Total Rewards programs.

TRANSMISSION AND DISTRIBUTION—Responsible for building, maintaining and planning the systems and assets needed to deliver electricity safely and reliably to BC Hydro customers.

GENERATION—Responsible for the operations and maintenance of, and engineering and long-term reinvestment in, BC Hydro's heritage generating assets and dams.

SITE C CLEAN ENERGY PROJECT—Responsible for the Site C Clean Energy project.

FINANCE AND CORPORATE RESOURCES—Responsible for several enterprise-wide functions, including finance, regulatory, information technology, procurement, legal, properties and strategy.

POWEREX CORP.—A subsidiary responsible for export, marketing and trade activities to optimize BC Hydro's electric system resources.

BOARD OF DIRECTORS

The BC Hydro Board of Directors is appointed by the Province and holds responsibilities that include:

- Overseeing the conduct of business, supervising management and ensuring all major issues affecting the corporation are given proper consideration;
- Through the Chief Executive Officer, setting the standards of conduct for BC Hydro and ensuring the safety of its operations;
- Ensuring there is a strategic and business planning process, and then reviewing, validating and endorsing a strategy for the corporation and monitoring its implementation;
- Ensuring effective controls and appropriate governance are in place as part of its management oversight; and,
- Assessing the principal risks associated with the corporation's business and ensuring that the appropriate processes and systems are in place to mitigate risk.

The Board is composed entirely of individuals who are independent of management. Many of the Board's responsibilities are assisted by Committees of the Board, which are comprised entirely of Board members, that make recommendations to the Board of Directors. The number of Board and Committee meetings in each fiscal year is set out in BC Hydro's corporate governance disclosure.

For more information on Board operations, visit the Board's roles and responsibilities on bchydro.com.

THE CHAIR OF THE BOARD OF DIRECTORS:

Dan Doyle

BOARD OF DIRECTORS MEMBERS:

Chief Kim Baird

Stephen Bellringer (appointed June 24, 2010)

Larry Blain (appointed June 24, 2010)

James Brown

Peter Busby

John Knappett (appointed June 24, 2010)

Tracey McVicar

Janine North (appointed October 20, 2010)

John Ritchie

FORMER BOARD OF DIRECTORS MEMBERS:

Wanda Costuros (resigned September 17, 2010)

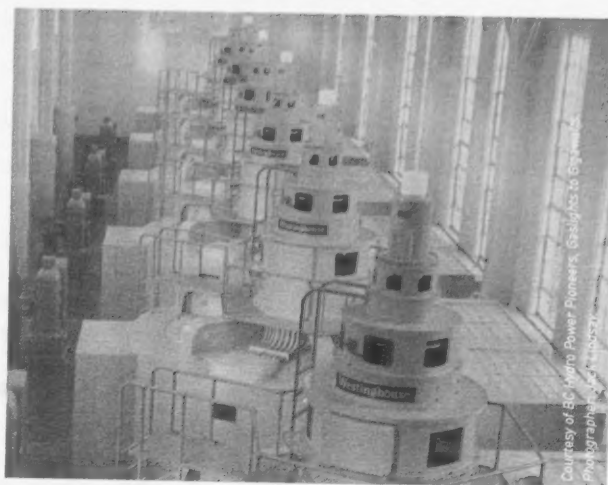
Jonathan Drance (resigned December 6, 2010)

Nancy Olewiler (resigned September 30, 2010)

Peter Powell (resigned June 29, 2010)



Above: John Hart Generating Station, Campbell River — 2011



Above: John Hart Generating Station, Campbell River — 1961

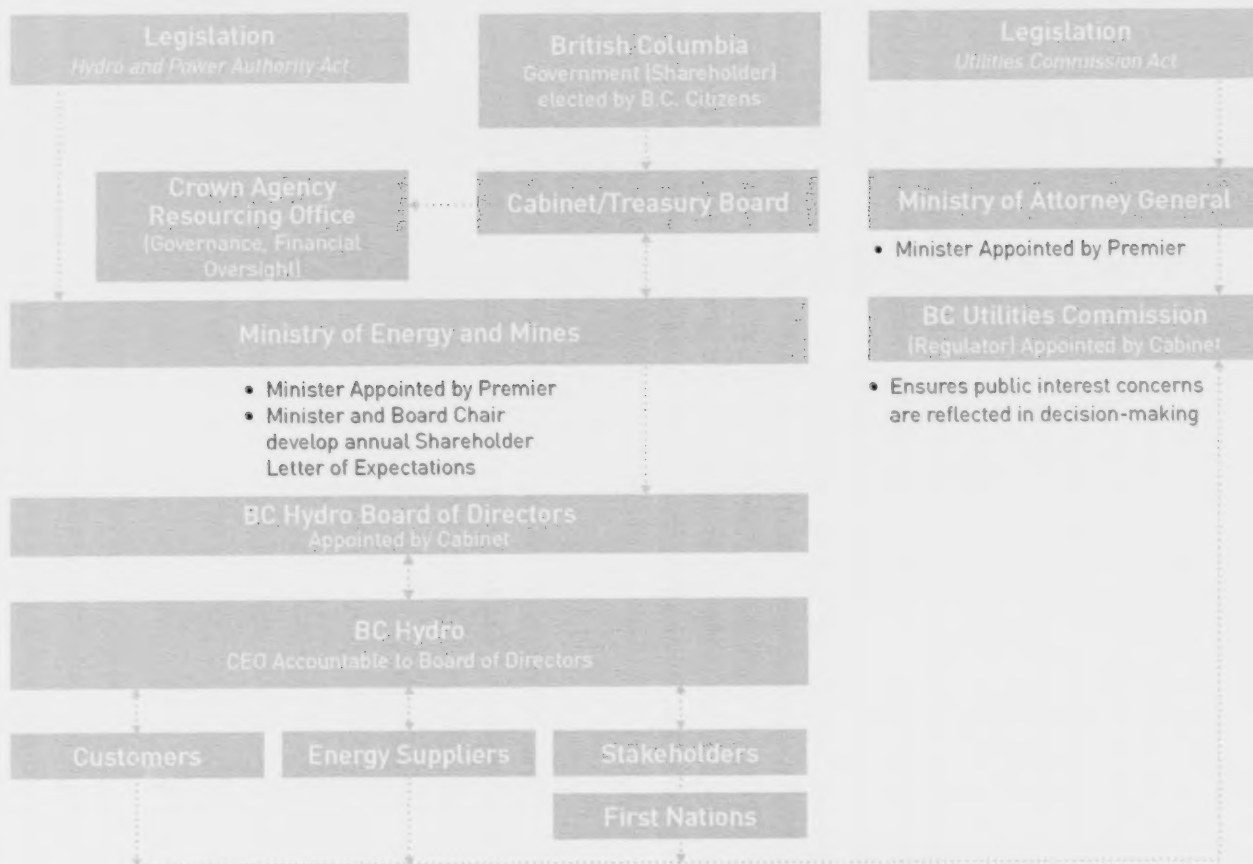
KEY ACCOUNTABILITIES AND GOVERNANCE PRINCIPLES

BC Hydro regularly reviews and updates its governance framework to ensure business needs are met while ensuring consistency with Government's Guiding Principles on Crown Agency Corporate Governance. Terms of reference for the Board and its Committees, the Chairman, the Chief Executive Officer and the Corporate Secretary are published on bchydro.com, as is the Director and Employee Code of Conduct. The Board acts in accordance with the Best Practices Guidelines for Governance and Disclosure Guidelines for Governing Boards of B.C. Public Sector Organizations. BC Hydro's response to the 12 disclosure requirements is updated annually and posted on our website.

STANDING COMMITTEES

AUDIT & RISK MANAGEMENT PURPOSE The Audit and Risk Management Committee assists the Board in fulfilling its obligations and oversight responsibilities relating to the audit process, financial reporting, the system of corporate controls, governance of the Corporation's pension plans and various facets of risk management.	TRACEY MCVICAR – CHAIR Larry Blain <i>(appointed December 6, 2010)</i> James Brown <i>(appointed March 31, 2011)</i> Dan Doyle ¹ Stephen Bellringer <i>(appointed September 16, 2010; ceased to be a member March 31, 2011)</i> Wanda Costuros <i>(resigned September 17, 2010)</i> Peter Powell <i>(resigned June 29, 2010)</i>
CAPITAL PROJECTS PURPOSE The Capital Project Committee assists the Board in fulfilling its obligations and oversight responsibility relating to the Corporation's long-term capital plans, capital budgets and capital projects, including risk identification and management, dam safety, and Aboriginal relations and negotiations.	DAN DOYLE – ACTING CHAIR John Knappett <i>(appointed September 16, 2010)</i> John Ritchie Chief Kim Baird <i>(ceased to be member September 16, 2010)</i> Jonathan Drance <i>(resigned December 6, 2010)</i> Peter Powell <i>(resigned June 29, 2010)</i>
CONSERVATION & CLIMATE ACTION PURPOSE The Conservation and Climate Action Committee assists the Board by monitoring and supporting the implementation of an energy conservation strategy as described by the BC Energy Plan, as well as climate action and other environmental matters.	PETER BUSBY – CHAIR Chief Kim Baird Tracey McVicar <i>(appointed September 16, 2010)</i> Janine North <i>(appointed November 10, 2010)</i> Dan Doyle ¹ Nancy Olewiler <i>(resigned September 30, 2010)</i>
CORPORATE GOVERNANCE [prior to September 16, 2010] PURPOSE The Corporate Governance Committee has independent Terms of Reference and is responsible for ensuring that BC Hydro and its Board develops and implements an effective approach to corporate governance. This shall enable the business and affairs of the Corporation to be carried out, directed and managed with the objective of ensuring compliance with established governance practices and the Code of Conduct, as well as following sound ethical principles.	JONATHAN DRANCE – CHAIR <i>(resigned December 6, 2010)</i> Tracey McVicar John Ritchie Dan Doyle ¹
CORPORATE GOVERNANCE [Committee of the Whole, effective September 16, 2010] PURPOSE The Corporate Governance Committee was restructured as a Committee of the Whole. This means that its membership includes all directors. Nonetheless, its purpose remains as outlined above.	STEPHEN BELLRINGER – CHAIR <i>(appointed September 16, 2010)</i> Chief Kim Baird Larry Blain James Brown Peter Busby John Knappett Tracey McVicar Janine North John Ritchie Dan Doyle ¹ Jonathan Drance <i>(resigned December 6, 2010)</i> Nancy Olewiler <i>(resigned September 30, 2010)</i>
EXECUTIVE [prior to September 16, 2010] PURPOSE The Executive Committee only meets in special circumstances. It has the full powers of the Board to act in situations when, for timing reasons, a Board meeting cannot be scheduled.	DAN DOYLE – CHAIR Wanda Costuros <i>(resigned September 17, 2010)</i> Jonathan Drance <i>(resigned December 6, 2010)</i>
EXECUTIVE [consists of committee chairs effective September 16, 2010] PURPOSE As outlined above.	DAN DOYLE – CHAIR Chief Kim Baird Stephen Bellringer Larry Blain Peter Busby Tracey McVicar Jonathan Drance <i>(resigned December 6, 2010)</i>
ENERGY PLANNING & PROCUREMENT [formed September 16, 2010] PURPOSE The purpose of the Energy Planning and Procurement Committee is to provide advice and direction to the Corporation, through the Board, with respect to both its strategic direction relating to export strategy, economic development and energy procurement activities and its execution of related initiatives. In addition, the Committee will provide advice and support to the Board Chair in his dealings with government pertaining to these issues.	LARRY BLAIN – CHAIR Peter Busby John Ritchie Dan Doyle ¹
HUMAN RESOURCES & SAFETY PURPOSE The Human Resources and Safety Committee assists the Board in fulfilling its obligations relating to human resources and compensation issues, related specifically to senior management and generally to the Corporation. The Committee also monitors safety performance.	CHIEF KIM BAIRD – CHAIR <i>(appointed September 16, 2010)</i> Stephen Bellringer <i>(appointed March 31, 2011)</i> Janine North <i>(appointed November 10, 2010)</i> Dan Doyle ¹ James Brown <i>(ceased to be a member March 31, 2011)</i> Nancy Olewiler <i>(resigned September 30, 2010)</i>

SHAREHOLDER-REGULATORY RELATIONSHIP FRAMEWORK



BC HYDRO SUBSIDIARIES

POWEREX CORP. 1 APRIL 2010–31 MARCH 2011

BOARD OF DIRECTORS

LARRY BLAIN – CHAIR *(appointed September 9, 2010)*
 Stephen Bellringer *(appointed September 9, 2010)*
 James Brown
 Wanda Costuros *(resigned September 17, 2010)*
 David Cobb *(appointed September 9, 2010)*
 Dan Doyle *(appointed September 9, 2010)*
 Bob Elton *(resigned May 13, 2010)*
 Peter Powell *(resigned June 29, 2010)*

OFFICERS

LARRY BLAIN – CHAIR
 Teresa Conway, President & CEO
 David Facey, Secretary

POWERTECH LABS INC. 1 APRIL 2010–31 MARCH 2011

BOARD OF DIRECTORS

BOB ELTON – CHAIR *(appointed as Executive Chair June 23, 2010; became non-Executive Chair May 16, 2011)*
 David Cobb *(appointed September 9, 2010)*
 Dan Doyle *(ceased to be a member May 5, 2010)*
 Brenda Eaton
 John Knappett *(appointed September 9, 2010)*
 Nancy Olewiler

OFFICERS

BOB ELTON – CHAIR
 Kathy Nguyen, Acting President & CEO
(appointed May 16, 2011)
 David Facey, Secretary

¹ The Board Chair is an ex-officio member of all Committees.

POWEREX CORP.

Powerex is a wholly-owned subsidiary of BC Hydro created in 1988 to export surplus power from B.C. resources. Over the last 22 years, Powerex's business has evolved from exporting B.C. surplus power to a broad range of power and gas marketing and trading activities. Powerex is one of the largest physical energy marketing and trading entities in Western Canadian and US electricity markets. Its energy marketing and trading activities help optimize BC Hydro's electric system resources and provide significant economic benefits to BC Hydro ratepayers and the people of British Columbia.

Powerex optimizes the surplus capability of the BC Hydro system and markets or trades power, gas renewable energy and related services. Powerex provides market access to BC Hydro by importing and exporting power and gas to meet BC Hydro's reliability, shortfall or surplus requirements. In addition to fulfilling this need, Powerex generates profits by leveraging its assets, which include the surplus capability of the BC Hydro system, expertise, systems, and broad customer base in the U.S. and Canada to profitably move energy between markets. Powerex also markets the Canadian Entitlement to the Downstream Benefits of the Columbia River Treaty on behalf of the Province of British Columbia.

Profits and services provided by Powerex help lower BC Hydro costs and lower electricity rates for BC Hydro customers as well as provide significant benefit to the Province of B.C. The markets in which Powerex operates are complex and volatile, which can cause net income in any given year to vary significantly. Over the previous five years, Powerex net income has ranged from \$12 million to \$259 million and cumulative income since 2003 exceeds \$1.5 billion. Income variability is primarily associated with the strength of underlying economic fundamentals including power and gas prices,

economic growth in the region, the supply and demand for energy products, and the U.S. to Canadian dollar exchange rate.

POWERTECH LABS INC.

Powertech Labs Inc., as a wholly-owned subsidiary of BC Hydro, has been providing consulting and testing services to electric utilities, gas companies, automotive manufacturers and others since its inception in 1979. Operating as a separate commercial entity, Powertech has combined unique testing capabilities with multidisciplinary, expert technical staff to help clients solve energy related problems. In addition to providing technical services to BC Hydro, Powertech serves a large number of clients in energy-related sectors across North America, Asia, Europe and beyond.

Powertech is located on 11 acres in Surrey, B.C. It is a multidisciplinary facility that incorporates 21 laboratories, and employs 129 full-time employees. In the last five years, Powertech's technical expertise and consulting services have helped to increase gross revenue from \$18 million to \$25 million. Over the last five years, Powertech's income has ranged from \$0.5 million to \$1.2 million.

OTHER SUBSIDIARIES

BC Hydro has created a number of other subsidiaries to help us manage risk in developing projects and/or contracting with third parties. These include BCH Services Corporation, BCHPA Captive Insurance Company Ltd., Columbia Hydro Constructors Ltd., and Tongass Power and Light Company. The Boards and management of these subsidiaries are made up of BC Hydro employees, who perform these duties without additional remuneration.

FINANCIAL RESULTS

BC HYDRO & POWER AUTHORITY MANAGEMENT DISCUSSION AND ANALYSIS

The Management Discussion and Analysis reports on British Columbia Hydro and Power Authority's (BC Hydro or the Company) consolidated results and financial position for the year ended March 31, 2011 (fiscal 2011). This discussion should be read in conjunction with the audited consolidated financial statements and related notes of the Company for the years ended March 31, 2011 and 2010. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are expressed in Canadian dollars. This report contains forward-looking statements, including statements regarding the business and anticipated financial performance of BC Hydro. These statements are subject to a number of risks and uncertainties that may cause actual results to differ from those contemplated in the forward-looking statements.

BC Hydro's results for fiscal 2011 benefited from higher domestic gross margins primarily due to higher average customer rates and lower domestic energy costs, and from lower finance charges, partially offset by higher non-energy operating costs and lower energy trading margins than in the prior year.

HIGHLIGHTS

- Net income after regulatory account transfers for the year ended March 31, 2011 was \$589 million, compared to \$447 million in the prior year and was \$18 million above the revised forecast for fiscal 2011 of \$571 million included in BC Hydro's February 2011 Service Plan. The Service Plan for fiscal 2011 originally filed in February 2010 had a target net income of \$609 million, but the mid-year integration of the British Columbia Transmission Corporation (BCTC) and the financial impacts of the Negotiated Settlement Agreement (NSA) on BC Hydro's F2011 Revenue Requirements Application (RRA) resulted in the reduced net income forecast reported in the February 2011 Service Plan.
- The NSA on BC Hydro's F2011 RRA, approved by the British Columbia Utilities Commission (BCUC) in December 2010, resulted in rate adjustments for domestic customers for the period January 1, 2011 to March 31, 2011. The overall annual bill impact for fiscal 2011 was a rate increase of 7.29 per cent.
- Hydro generation levels for the year ended March 31, 2011 were 6 per cent lower than in the prior year, primarily due to lower water inflows. System water inflows during the year were at 86 per cent of average. This follows a similar low water year in fiscal 2010 which was 87 per cent of average.
- Capital expenditures of \$1.5 billion for the year were \$887 million lower than in the prior year largely due to the acquisition in the prior year of a one-third interest in the Waneta dam and generating facility. Exclusive of this one-time significant acquisition, BC Hydro's expenditures on the expansion of its facilities to meet future load growth requirements and on maintaining its aging infrastructure were comparable to the prior year.

FINANCIAL RESULTS

For the year ended March 31

(in millions)

	2011	2010	Change
Total Assets	\$ 19,479	\$ 17,989	\$ 1,490
Shareholders' Equity	\$ 2,880	\$ 2,674	\$ 206
Net Income	\$ 589	\$ 447	\$ 142
Accrued Payment to the Province	\$ 463	\$ 47	\$ 416
Property, Plant and Equipment Expenditures	\$ 1,519	\$ 2,406	\$ (887)
Return on Equity	14.13%	12.49%	1.64%
Debt to Equity Ratio	80 : 20	80 : 20	—
Number of Domestic Customers	1,853,137	1,830,698	22,439
GWh Sold (Domestic)	50,607	50,233	374
Total Reservoir Storage (GWh)	12,610	12,328	282

CONSOLIDATED RESULTS OF OPERATIONS

As a rate-regulated utility, BC Hydro applies various accounting policies that are acceptable under Canadian GAAP for rate-regulated enterprises but differ from enterprises that do not operate in a rate-regulated environment. These policies allow for the deferral of amounts that under GAAP would otherwise be recorded as expenses or income in the current accounting period. The deferred amounts are either recovered or refunded through future rate adjustments.

Commencing in fiscal 2011, BC Hydro changed its reporting of regulatory account transfers on the statement of operations to report individual line items net of transfers to regulatory accounts, as compared to prior years in which aggregate net transfers to regulatory accounts were reported as a single separate line item and income was reported both before and after regulatory account transfers. An exception is trade revenue, for which the regulatory account transfer is netted with the trade cost of energy regulatory account transfer to reflect a net trade margin transfer. Amounts in the prior year's comparative statement of operations have been reclassified to conform to the current year's presentation of changes in regulatory accounts and the current year's classification of operating expenses. Detail on regulatory account transfers can be found in the MD&A and in Note 4 to the audited consolidated financial statements.

The transfers to regulatory accounts reflected in net income on the consolidated statement of operations include: variances between forecast and actual amounts for certain costs, including cost of energy, trade income and finance charges; certain amounts incurred in the current period that are deferred for future recovery in rates (such as demand-side management expenditures and liability provisions); interest accrued on regulatory accounts where allowed; and amortization of regulatory accounts into income.

For the year ended March 31, 2011, net transfers to regulatory accounts of \$447 million were mainly to the Non-Heritage Deferral Account (NHDA) due to higher than planned energy costs resulting from low water inflows which were not reflected in the fiscal 2011 rate increase and lower than planned domestic revenues, partially offset by lower purchases from Independent Power Producers (IPPs) and purchases for future trade; additions to the Trade Income Deferral Account (TIDA) for the variance between planned and actual trade income as a result of lower than planned price spreads due to poor market conditions and the need to import electricity due to the low water inflows into the BC Hydro system; expenditures on Demand-Side Management (DSM); and a reduction of the Environmental Compliance regulatory account for a revision to BC Hydro's estimated future environmental compliance and remediation expenditures related to polychlorinated biphenyls (PCBs).

Net income for the year ended March 31, 2011 was \$589 million, an increase of \$142 million from the prior year mainly as a result of higher domestic revenues due to higher average customer rates and an increase in the rate rider, lower operating costs primarily due to lower expenditures for electricity and gas purchases, and lower finance charges, partially offset by lower trade income. All variances are after the effect of applicable transfers to regulatory accounts.

REVENUES

For the year ended March 31	(in millions)		(gigawatt hours)	
	(Revised)		(Revised)	
	2011	2010	2011	2010
Domestic				
Residential	\$ 1,398	\$ 1,300	17,797	17,593
Light industrial and commercial	1,237	1,133	18,052	17,811
Large industrial	539	485	13,164	13,020
Other energy sales	229	220	1,594	1,809
Total Domestic Revenue Before Regulatory Transfer	3,403	3,138	50,607	50,233
Domestic load variance regulatory transfer	35	151	—	—
Total Domestic	\$ 3,438	\$ 3,289	50,607	50,233
Trade				
Electricity – Gross	\$ 1,028	\$ 1,320	26,253	28,210
Less: forward electricity purchases ¹	(565)	(749)	—	—
Electricity – Net	463	571	—	—
Gas – Gross	942	789	23,362	20,632
Less: forward gas purchases ¹	(827)	(621)	—	—
Gas – Net	115	168	—	—
Total Trade	\$ 578	\$ 739	49,615	48,842
Total	\$ 4,016	\$ 4,028	100,222	99,075

¹ Forward purchases include derivatives which are deducted from gross sales in accordance with GAAP.

Total revenue for the year ended March 31, 2011 was \$4,016 million, comparable to revenues of \$4,028 million in the prior year. Domestic revenues were higher due to higher average rates in all customer classes, while trade revenues were lower due to weak demand for market energy primarily due to uncertainty over the strength of the economic recovery in the U.S. and lower electricity prices. The decrease in trade revenue reflects lower commodity prices and weaker demand for trade electricity due to the ongoing economic uncertainty in the U.S., partially offset by higher gross gas sales prices and volumes before deducting forward purchases, which were higher than in the prior year.

DOMESTIC REVENUES

Total domestic revenues of \$3,438 million for fiscal 2011 were \$149 million or 5 per cent higher than in the previous year. The increase for the year was due to higher average customer rates in all rate classes. The effective annual rate increase for fiscal 2011 was 4.67 per cent, made up of a 6.11 per cent increase for the period April 1, 2010 to December 31, 2010 and a rate credit of 4.71 per cent applied for the period January 1, 2011 to March 31, 2011. The rate rider increased from 1 per cent to 4 per cent for the period April 1, 2010 to December 31, 2010 and decreased to 2.5 per cent for the period January 1, 2011 to March 31, 2011 for an effective annualized rate rider increase of 3.53 per cent. Together the rate and rate rider increases resulted in a total average annual customer bill impact of an increase of 7.29 per cent in fiscal 2011. Domestic sales volumes were comparable to the prior year. Any variances between actual and planned load are deferred to the NHDA.

TRADE REVENUES

Powerex, a wholly owned subsidiary of BC Hydro, is a key participant in energy markets across North America, buying and supplying wholesale power, natural gas, ancillary services, and financial energy products and, more recently, environmental products with an expanding list of trade partners.

BC Hydro's electricity system is interconnected with systems in Alberta and the Western United States, facilitating sales and purchases of electricity outside of British Columbia. Powerex's trade activities help BC Hydro balance its system by being able to import energy to meet domestic demand when there is a supply shortage in the system due to such factors as low water inflows. Exports are made only after ensuring domestic demand requirements can be met.

Gross trade revenue for the year ended March 31, 2011 decreased by \$139 million from fiscal 2010 due to a decrease in gross electricity revenue of \$292 million, partially offset by an increase in gross gas revenue of \$153 million. The decrease in gross electricity revenue was primarily driven by a 16 per cent decrease in the average electricity sales price over the prior year, partly due to the strengthening of the Canadian dollar against the U.S. dollar over the fiscal year, and a 7 per cent decrease in electricity sales volumes. The decrease in electricity prices and volumes was primarily a result of low demand in California due to the economic downturn and a cool summer along the U.S. west coast, partially offset by higher sales prices and volumes into Alberta. The increase in gross gas revenue was due to a 13 per cent increase in gas sales volumes and a 5 per cent increase in the average gas sales price. Deducted from gross trade revenue are forward purchases, which increased by a net \$22 million compared to the prior year. Forward transactions are reported on a net basis in accordance with GAAP.

OPERATING COSTS

In fiscal 2011, BC Hydro changed its classification of operating expenses to a presentation of costs based on the nature of the expenditures. Amounts previously reported as operations, maintenance and administration are now classified by the nature of the expense as outlined in Note 6 in the audited consolidated financial statements.

For the year ended March 31, 2011, total operating costs of \$2,992 million were \$89 million lower than in the prior year. The decrease is due to a reduction in the cost of energy, partially offset by increases in non-energy operating expenses including increases in personnel expenditures, higher amortization expense, higher grants and taxes and other operating costs, partially offset by lower materials and services expenditures.

COST OF ENERGY

Energy costs are influenced primarily by the volume of energy consumed by customers, the mix of sources of supply and market prices of energy. The mix of sources of supply is influenced by variables such as the current and forecast market prices of energy, water inflows, reservoir levels, energy demand and environmental and social impacts.

FINANCIAL RESULTS

Energy costs are comprised of the following sources of supply:

	(in millions) (Revised)		(gigawatt hours) (Revised)		(\$ per MWh) (Revised)	
For the year ended March 31	2011	2010	2011	2010	2011 ²	2010 ²
Domestic						
Water rental payments (hydro generation)	\$ 298	\$ 294	39,675	42,115	\$ 7.59	\$ 6.80
Purchases from independent power producers	676	568	10,805	8,893	62.53	61.49
Other electricity purchases – domestic	128	80	3,791	2,161	33.72	37.33
Gas for thermal generation	44	50	251	400	175.53	110.30
Transmission charges and other expenses	26	64	114	113	—	—
Allocation to/from trade energy	38	68	1,077	1,525	36.95	33.94
Total Domestic Cost of Energy Before Regulatory Transfers	1,210	1,124	55,713	55,207	21.72	20.36
Domestic cost of energy regulatory transfers	(161)	21	—	—	—	—
Total Domestic	\$ 1,049	\$ 1,145	55,713	55,207	\$ 18.83	\$ 20.74
Trade						
Electricity – Gross	\$ 792	\$ 1,114	26,925	29,453	\$ 29.42	\$ 37.82
Less: forward electricity purchases ¹	(565)	(749)	—	—	—	—
Electricity – Net	227	365	—	—	—	—
Remarketed gas – Gross	881	746	23,876	21,276	36.90	35.06
Less: forward gas purchases ¹	(827)	(622)	—	—	—	—
Other gas purchases – Net	54	124	—	—	—	—
Transmission charges and other expenses	191	221	—	—	—	—
Allocation to/from domestic energy	(38)	(68)	(1,077)	(1,525)	36.95	33.94
Total Trade Cost of Energy Before Regulatory Transfers	434	642	49,724	49,204	20.20	28.42
Trade net margin regulatory transfers	(68)	(166)	—	—	—	—
Total Trade	\$ 366	\$ 476	49,724	49,204	\$ 18.84	\$ 25.04
Total Energy Costs	\$ 1,415	\$ 1,621	105,437	104,411	\$ 18.83	\$ 22.77

¹ Other electricity purchases in dollars include purchases for trade activities shown net of derivatives. Gigawatt hours (GWh) and \$ per Megawatt hour (MWh) are shown at gross cost.

² Total cost per MWh includes other electricity purchases at gross cost.

For the year ended March 31, 2011, total energy costs, after regulatory account transfers, were \$1,415 million, 13 per cent lower than the previous year as a result of lower domestic and trade energy costs after transfers to regulatory accounts. Before regulatory transfers, domestic energy costs were higher due to higher purchases required to offset low generation levels which resulted from low water inflows, and trade energy costs were lower due to lower trade electricity purchase prices and volumes, partially offset by higher volumes for gas purchases for trade.

FINANCIAL RESULTS

DOMESTIC ENERGY COSTS

Domestic energy costs before regulatory transfers of \$1,210 million for the year ended March 31, 2011 were 8 per cent higher than in the prior year. The increase was mainly due to higher purchases from IPPs and higher market energy purchases, partially offset by lower transmission costs and purchases for future trade. The increase in IPP purchases was primarily due to two new bio-energy projects which started in late fiscal 2010, agreements in the current year to purchase additional energy from two existing IPPs, and increased purchases from Alcan that BC Hydro was required to make due to Alcan's reduced smelter load. Market electricity purchase volumes were higher as the reduced generation levels resulting from lower water inflows during the year required BC Hydro to purchase energy from the market to meet domestic load requirements. Water rental costs for the year were comparable to the prior year as an 8.74 per cent increase on water rental fees and additional water rental fees associated with the one-third interest in the Waneta dam and generating facility acquired in March 2010 were offset by the impact of lower generation levels due to lower water inflows. Variances between actual and planned domestic cost of energy are transferred to the Heritage Deferral Account (HDA) and NHDA.

TRADE ENERGY COSTS

Gross trade energy costs for the year ended March 31, 2011 decreased by \$187 million from fiscal 2010 primarily due to a \$322 million decrease in gross electricity purchases for trade, partially offset by a \$135 million increase in gross gas purchases. Gross electricity purchases reflect a 22 per cent decrease in the average electricity purchase price, partly due to the strengthening of the Canadian dollar against the U.S. dollar over the fiscal year, and a 9 per cent decrease in electricity purchase volumes. As with electricity sales, this is primarily due to the economic downturn and a cool summer, which reduced demand in California, partially offset by higher sales prices and volumes into Alberta. Remarketed gas purchase costs increased due to a 5 per cent increase in the average gas purchase price and a 12 per cent increase in gas purchase volumes reflecting seasonal price spreads that resulted in increased cycling of gas storage. Deducted from gross trade energy costs are forward purchases, which increased by a net \$21 million compared to the prior year. Forward purchases are netted against forward sales within gross revenue in accordance with GAAP.

WATER INFLOWS

System inflows were approximately 86 per cent of average in fiscal 2011, comparable to inflows of 87 per cent of average in fiscal 2010. System inflows for fiscal 2012 are forecast to be 101 per cent of average, with inflows to the Williston Reservoir on the Peace River system at 100 per cent and the Kinbasket Reservoir on the Columbia River system at 103 per cent.

Water Supply for the past two Water Years has been some of the lowest on record. The 2010 Water Year (Feb-Sept 2010) was 81 per cent of normal and the lowest in 51 years of record. The 2009 Water Year (Feb-Sept 2009) was 86 per cent of normal and the fifth lowest on record. The low system inflows did not present any serious operational issues. System Inflows for the 2011 Water Year (Feb-Sept 2011) are forecast to be 101 per cent of normal (based on April Water Supply Forecast).

BC Hydro reservoirs have been managed such that the combined storage in BC Hydro reservoirs at the end of fiscal 2011 was 99 per cent of average, with the Williston and Kinbasket reservoirs at 89 per cent and 110 per cent of average, respectively. In comparison, combined system storage at the end of fiscal 2010 was 94 per cent of average.

PERSONNEL EXPENSES

Personnel expenses include labour, benefits and employee future benefits. Personnel costs, after net regulatory transfers, of \$541 million for the year ended March 31, 2011 were \$69 million higher than in the previous year primarily due to higher non-current pension costs.

FINANCIAL RESULTS

MATERIALS AND EXTERNAL SERVICES

Materials and external services include expenditures for operating and maintenance materials and services provided by third parties. Expenditures on materials and external services, after net regulatory transfers, of \$585 million for the year ended March 31, 2011 were \$20 million lower as compared to the prior year. The reduction is mainly due to changes in levels of maintenance and other operational activities, including expenditures in fiscal 2010 on initiatives not continued in the current year and lower current year expenditures on various distribution maintenance and work programs and generation operations civil and maintenance initiatives, partially offset by costs recognized in the current year for the operating portion of Energy Purchase Agreements (EPAs) treated as capital leases in fiscal 2011 but treated as cost of energy in the prior year.

CAPITALIZED COSTS

Capitalized costs are overhead costs incurred to support capital expenditures and are transferred from operating costs to property, plant and equipment. Capitalized costs for the year ended March 31, 2011 are \$270 million, \$10 million lower than in the prior year, in line with a reduction in capital expenditures on property, plant and equipment in the current year.

AMORTIZATION AND DEPRECIATION

Amortization and depreciation expense includes the depreciation of property, plant and equipment, intangible assets, asset retirement obligation (ARO) assets, amortization of customer contributions and the amortization of certain regulatory assets and liabilities. For the year ended March 31, 2011, amortization and depreciation expense was \$533 million compared with \$487 million in the prior year. The increase was primarily due to higher assets in service as a result of BC Hydro's capital expenditure program, partially offset by lower net regulatory account amortization.

GRANTS AND TAXES

As a Crown Corporation, BC Hydro is exempt from paying federal and provincial income taxes, but pays local government taxes and grants in lieu to municipalities and regional districts. Total grants, school taxes and other local taxes of \$184 million for the year ended March 31, 2011 were comparable to the \$178 million paid in the prior year.

FINANCE CHARGES

Finance charges for the year ended March 31, 2011 of \$435 million were \$65 million lower than in the prior year. The reduction is primarily due to a decrease of \$106 million in other finance charges, partially offset by an increase in interest on long term debt. Actual other finance charges in fiscal 2010 were significantly lower than the forecast finance charges primarily due to the difference between the forecasted weighted average cost of debt as compared to the actual weighted average cost of debt incurred in the year. This difference resulted in a \$105 million increase in fiscal 2010 other finance charges after regulatory transfer. The regulatory transfer in fiscal 2011 was immaterial. The increase in interest on long-term debt is primarily due to an increase in the planned volume of long-term debt issues in fiscal 2011 as compared to the prior year.

REGULATORY TRANSFERS

BC Hydro has established various regulatory accounts with the approval of the BCUC. Regulatory accounts allow BC Hydro to defer certain types of revenue and cost variances through transfers to and from the accounts which have the effect of adjusting net income. The deferred amounts are then included in customer rates in future periods, subject to approval by the BCUC.

The net change in regulatory accounts on the consolidated statement of operations includes: 1) the deferral of differences between planned and actual results for cost of energy (including variances related to load), trade income, finance charges and non-current pension costs; 2) costs deferred for future recovery in rates, such as costs for DSM and Site C; and 3) interest accrued on regulatory accounts, where allowed, and amortization of regulatory accounts.

Regulatory transfers are comprised of the following:

<i>For the year ended March 31</i>		<i>(Revised)</i>	
<i>(in millions)</i>		2011	2010
Variances between forecast and actual costs			
Energy deferral accounts	\$	296	\$ 249
Finance charges		(4)	(105)
Non-current pension deferral		3	86
Other		(18)	(76)
		277	154
Deferral of costs for future recovery in rates			
Demand-Side Management programs		128	130
Return on Equity		—	56
Environmental Compliance		(83)	321
Other		120	82
		165	589
Amortization of regulatory accounts		(32)	(90)
Interest on regulatory accounts		37	42
Net change in regulatory accounts	\$	447	\$ 695

For the year ended March 31, 2011, BC Hydro transferred, on a net basis, \$447 million to regulatory accounts, compared with the transfer of \$695 million to the regulatory accounts during the prior year. The majority of the transfers relate to the cost of energy deferral accounts. The net asset balance in the regulatory asset and liability accounts as at March 31, 2011 was an asset of \$2,160 million compared to \$1,713 million at March 31, 2010.

The significant transfers to the energy deferral accounts reflect higher than planned domestic cost of energy as a result of higher energy purchase costs as increased market energy purchases were required due to low water inflows, lower domestic revenues due to lower consumption, and lower than planned trade income due to low price spreads caused by lower commodity prices for electricity and natural gas. Finance charges are on plan in the current year as compared to fiscal 2010 where they were significantly lower than plan due to lower than planned short term interest rates. Non-current pension costs are on plan in the current fiscal year as compared to fiscal 2010 where they were significantly higher than planned due to the net actuarial loss experienced by the BC Hydro pension plan in fiscal 2009. DSM expenditures and transfers are comparable to the prior year. The Environmental Compliance account transfers reflect a reduction in the provision in the current year for estimated future environmental compliance and remediation expenditures related to PCBs due to a reduction in the estimate of these expenditures.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The *Budget Transparency and Accountability Act* (BTAA) specifies that the Government and government organizations conform to the set of standards and guidelines that comprise generally accepted accounting principles for senior governments in Canada, unless otherwise directed by Treasury Board. Accounting standards for senior government are understood to mean standards established by the Public Sector Accounting Board (PSAB), which directs Government Business Enterprises (GBE) to adhere to International Financial Reporting Standards (IFRS). BC Hydro is classified as a GBE. Qualifying entities with rate-regulated activities have the option of deferring the adoption of IFRS and continuing to apply the accounting standards in Part V of the CICA Handbook—*Accounting* until their annual periods beginning on or after January 1, 2012. BC Hydro will use the deferral option. For subsequent years, alternatives available pursuant to Section 23.1 of the BTAA may be considered by Treasury Board. The Company is continuing to evaluate the impact on its consolidated financial statements of the adoption of IFRS and will work with Treasury Board with respect to potential alternatives.

PAYMENT TO THE PROVINCE

Under a Special Directive from the Province, BC Hydro is required to make an annual payment to the Province (the Payment) on or before June 30 of each year. The Payment is equal to 85 per cent of BC Hydro's distributable surplus for the most recently completed fiscal year assuming that the debt to equity ratio, as defined by the Province, after deducting the Payment, is not greater than 80:20. If the Payment would result in a debt to equity ratio exceeding 80:20, then the Payment will be based on the greatest amount that can be paid without causing the debt to equity ratio to exceed 80:20. The dividend accrued for the year ended March 31, 2011 is \$463 million, which is 84 per cent of distributable surplus, below 85 per cent due to the 80:20 cap.

LEGAL PROCEEDINGS

Since 2000, Powerex has been named, along with other energy providers, in lawsuits and U.S. federal regulatory proceedings which seek refunds, damages and/or contract rescissions based on allegations that, during part of 2000 and 2001, the California wholesale electricity markets were unlawfully manipulated and energy prices were not just and reasonable. At March 31, 2011, Powerex was owed US \$265 million (CDN \$258 million) by the California Power Exchange and the California Independent System Operator related to Powerex's trade activities in California during the period covered by the lawsuits. It is expected those receivables will be offset against any refunds that Powerex is required to pay. Additional detail on the proceedings can be found in Note 16 to the audited consolidated financial statements.

Due to the ongoing nature of the regulatory and legal proceedings against Powerex, management cannot predict the outcomes of the claims against Powerex. Powerex has recorded provisions for uncollectible amounts and legal costs associated with the California energy crisis. These provisions are based on management's best estimates, and are intended to adequately provide for any exposure. However, the amounts that are ultimately collected or paid may differ from management's current estimates. Management has not disclosed the provision amounts or ranges of expected outcomes due to the potentially adverse effect on the process.

REGULATION

In the process of regulating and setting rates for BC Hydro, the BCUC must ensure that the rates are sufficient to allow BC Hydro to provide reliable electricity service, meet its financial obligations, comply with government policy and achieve a certain return on equity (ROE). The annual rate of ROE is equal to the pre-income tax annual rate of return allowed by the BCUC to the most comparable investor-owned energy utility regulated under the *Utilities Commission Act*. This is in accordance with Heritage Special Direction No. HC2. Order in Council No. 074 dated February 17, 2009 amended Heritage Special Direction No. HC2 to allow for an adder of 1.63 per cent in fiscal years 2010, 2011 and 2012. The allowed rate of ROE for fiscal 2011 is 14.37 per cent, and is higher than the prior year's allowed rate of 13.05 per cent due to the higher rate of return allowed for FortisBC Energy Inc. (formerly Terasen Gas Inc.), upon which BC Hydro's return on equity is based.

Order in Council No. 020 dated February 2, 2011 and effective April 1, 2011 amended Heritage Special Direction No. 2, so that BC Hydro's return on equity will be based on total assets in service rather than total debt and equity.

F2011 REVENUE REQUIREMENT APPLICATION (RRA)

BC Hydro's F2011 RRA was filed with the BCUC on March 3, 2010 requesting a 6.11 per cent rate increase and an increase in the Deferral Account Rate Rider (DARR) from 1 per cent to 4 per cent. The increases were approved by the BCUC on an interim basis effective April 1, 2010.

BC Hydro and interveners entered into a negotiated settlement process in September 2010 to resolve the application. A NSA was reached and was approved by the BCUC on December 2, 2010.

FINANCIAL RESULTS

The NSA confirmed the 6.11 per cent rate increase as final with a 4.71 per cent rate credit applied to customers' bills for the period January 1 to March 31, 2011 to reflect the NSA adjustments. The DARR was finalized at 4 per cent for the April 1 through December 31, 2010 period and 2.5 per cent thereafter. In combination, the overall fiscal 2011 annual bill impact of these adjustments to customers is 7.29 per cent.

The main financial impacts of the NSA in fiscal 2011 include write-offs of \$5.5 million to the Procurement Enhancement Initiative (PEI) Regulatory Account balance and \$10.3 million to the DSM Regulatory Account balance and a reduction of \$35 million in the operating cost forecast for fiscal 2011. These changes impact fiscal 2011 financial results. The NSA also included several commitments by BC Hydro to address specific issues in its next revenue requirements application.

F2012-2014 RRA

BC Hydro's F2012-F2014 RRA was filed with the BCUC on March 1, 2011, requesting an average rate increase of 9.73 per cent per year in each of fiscal 2012 to fiscal 2014. These requested rate increases reflect increasing capital-related costs (amortization, financing costs and return on equity) due to higher levels of investment in assets; an increase in domestic energy costs due to purchases of higher-priced new supply; and a reduction in forecast trade income due to forecast weaker export market conditions.

On April 21, 2011 the BCUC approved an average interim rate increase of 8 per cent effective May 1, 2011 and suspended the regulatory process for reviewing the F2012-F2014 RRA until the completion of a provincial government review of BC Hydro. The outcome of this review will be incorporated into an amended revenue requirements application to the BCUC, expected to be filed in late summer/early fall 2011.

INTERIOR TO LOWER MAINLAND TRANSMISSION (ILM) PROJECT

The BCUC reconsidered the ILM application for the purpose of determining the adequacy of First Nations consultation on this project from 2006 up to the point when the Certificate of Public Convenience and Necessity (CPCN) was issued in August 2008. Construction on this project has been suspended, pending a decision on this matter.

The BCUC issued its decision on February 3, 2011, finding that the Crown's duty to consult with certain First Nations had not been adequately met as of August 5, 2008, and as result, continuing the suspension of the ILM CPCN. BC Hydro has been directed to conduct further consultation and file a compliance report in June addressing these deficiencies for the BCUC's review before the CPCN suspension can be lifted.

On March 2, 2011, an application to the BCUC seeking reconsideration of this decision was filed by several First Nations. After a written comment process, the BCUC determined that the application did not meet the threshold for a reconsideration to proceed and thus dismissed the application on May 6, 2011.

RUSKIN DAM UPGRADE PROJECT

On February 22, 2011, BC Hydro filed an application for a CPCN for the Ruskin Dam Upgrade Project. This project involves replacing parts of the seismically deficient dam, and rehabilitating or replacing the powerhouse, including generating equipment and associated transmission facilities. On February 24, 2011, the BCUC established a written public hearing and regulatory timetable for the review of the application. A decision is expected in late 2011.

LARGE GENERAL SERVICE (LGS) RATE APPLICATION

On October 16, 2009, BC Hydro filed its LGS Rate application with the BCUC. BC Hydro proposed to split the existing rate class into large (LGS) and medium (Medium General Service, "MGS") commercial classes. New rate structures were proposed for each new customer class to encourage conservation and energy efficiency. A NSA regarding the restructuring of the commercial class rate

FINANCIAL RESULTS

was reached by BC Hydro and its customers and was approved by the BCUC on June 29, 2010. New rates for the LGS became effective January 1, 2011 while MGS rates will be phased in over a six year period ending April 1, 2015.

OTHER APPLICATIONS REVIEWED BY THE BCUC IN FISCAL 2011

Several other applications received approval from the BCUC in F2011. These include:

- Stave Falls Spillway Gates Project;
- Hugh Keenleyside Spillway Gates Project;
- Vancouver City Central Transmission Project (Mount Pleasant/False Creek area);
- Columbia Valley Transmission Project; and
- Remote Community Electrification Projects (St'at'imc, Tsay Keh, Fort Ware and Elhateese communities).

LIQUIDITY AND CAPITAL RESOURCES

Cash flow provided by operating activities for the year ended March 31, 2011 was \$668 million, compared to \$373 million for the prior year. The increase was primarily due to an increase in net income and changes in working capital relative to the prior year.

The long-term debt balance net of sinking funds at March 31, 2011 was \$11.5 billion, compared with \$10.7 billion at March 31, 2010. The increase was mainly a result of net long-term bond issues totaling \$593 million (\$600 million par value) less long-term bond retirements totaling \$150 million (\$150 million par value) and an increase in revolving borrowings of \$409 million. The increases in short-term and long-term debt include debt transferred to BC Hydro on the integration of BCTC which does not affect cash flow. These increases were partially offset by net foreign exchange revaluation gains on bonds and sinking funds of \$48 million, a decrease of \$19 million in debt due to fair value hedge accounting, amortization of premiums of \$8 million and sinking fund income of \$5 million. The increase in revolving borrowings was due to the funding of capital expenditures and the Payment to the Province related to fiscal 2010 earnings.

All derivative financial instruments are required to be carried on the balance sheet at fair value. As at March 31, 2011, BC Hydro recorded a net derivative financial instrument liability of \$147 million (\$224 million asset less \$371 million liability) compared with a net derivative financial instrument liability of \$97 million (\$520 million asset less \$617 million liability) in the prior year. The change resulted from losses on foreign currency contracts due to the increased strength of the Canadian dollar relative to the U.S. dollar and from the decline in value of interest rate swaps while others were impacted by rising interest rates, and from a decrease in the value of commodity derivatives as a result of the expiry of large asset and liability positions in gas and electricity arising from large historic price movements.

PROPERTY, PLANT AND EQUIPMENT EXPENDITURES

Property, plant and equipment expenditures were as follows:

<i>(in millions)</i>	2011	2010	Change
Distribution improvements and expansion	\$ 429	\$ 425	\$ 4
Generation replacements and expansion	420	461	(41)
Waneta Dam and generating facility – one-third interest	—	841	(841)
Transmission lines and substation replacements & expansion	437	389	48
General, including computers and vehicles	233	290	(57)
Total Property, Plant and Equipment Expenditures	\$ 1,519	\$ 2,406	\$ (887)

Total property, plant and equipment expenditures presented in this table are different from the amount of property, plant and equipment and intangible asset expenditures in the consolidated Statement of Cash Flows in the consolidated financial statements due to effect of accruals related to these expenditures.

FINANCIAL RESULTS

Generation replacement and expansion expenditures for the year ended March 31, 2011 decreased by \$41 million over the prior year. The decrease is mainly due to lower spending in the current year on the Revelstoke Unit 5 Installation, which was placed in service in December 2010, partially offset by increased spending on the Mica SF₆ GIS Replacement and the Fort Nelson Resource Smart Upgrade.

Transmission lines and substations capital expenditures for the year ended March 31, 2011 increased by \$48 million compared with the prior year. The increase is mainly due to expenditures on the Saanich Peninsula Project, the Central Vancouver Island Project and the right of way purchase of the CN Rail Electrical Works Corridor.

General capital expenditures decreased by \$57 million for the year ended March 31, 2011 compared with the prior year. The decrease is mainly due to lower expenditures on vehicle purchases, as many units were replaced in the last half of the year in fiscal 2010, and lower expenditures on the Port Mann Bridge highway relocation. Lower expenditures on the Home Purchase Offer Program (HPOP) in Tsawwassen have also contributed to the decrease; this is partially offset by higher expenditures on the Smart Metering & Infrastructure Program, construction of a new field building in the Lower Mainland and purchase of the Edmonds Annex Building.

CAPITAL LEASES

In accordance with Canadian GAAP, EPAs with Island Co-Generation (ICG) and Dokie Wind Energy are accounted for as capital leases. This has resulted in the recognition of capital lease assets and corresponding liabilities of \$480 million which will be amortized over the term of the EPAs. Purchases of energy under these EPAs are recorded in the income statement as to the nature of the costs, being operating costs, taxes, amortization, finance charges and cost of energy, as opposed to the EPAs that are not treated as capital leases under which purchases are accounted for as cost of energy.

COMPARISON WITH SERVICE PLAN

The *Budget Transparency and Accountability Act* requires that BC Hydro file a Service Plan each February. BC Hydro's Service Plan for fiscal 2011 was filed in February 2010 and forecast net income at \$609 million. In fiscal 2011, the integration of BCTC, the F2011 RRA NSA, and changes to the presentation of certain financial statement items to a net, nature view, have resulted in revisions to the fiscal 2011 targets as reported in the February 2010 Service Plan. The impact of these changes are reflected in the Service Plan Reforecast submitted together with the fiscal 2012 Service Plan in February 2011 and these are the targets against which meaningful comparison of fiscal 2011 results can be made.

Domestic gross margin was higher than forecast due to higher miscellaneous domestic revenues, as all other variances are deferred to the energy deferral accounts.

Net trade margins were comparable to the Service Plan reforecast. Lower than forecast energy trading revenues were offset by lower than forecast cost of energy for trade.

Other operating costs and finance charges were comparable to the Service Plan reforecast.

FINANCIAL RESULTS

The table below provides an overview of BC Hydro's financial performance relative to its 2010 results and to its 2011 Service Plan forecast. The results and forecasts form the basis upon which key performance targets are set. The 2011 variance column compares actual fiscal 2011 results to the February 2011 Service Plan Reforecast.

(in millions)				Service Plan Forecast February 2010	Service Plan Reforecast February 2011	2011 Variance
	2009	Actual 2010	2011	2011	2011	
Revenues						
Total Domestic	\$ 2,814	\$ 3,289	\$ 3,438	\$ 3,404	\$ 3,414	\$ 24
Trade	1,455	739	578	1,385	1,259	(681)
	4,269	4,028	4,016	4,789	4,673	(657)
Expenses						
Operating costs						
Cost of energy	2,393	1,621	1,415	2,332	2,092	677
Other operating expenses	1,477	1,460	1,577	1,717	1,577	—
	3,870	3,081	2,992	4,049	3,669	677
Operating Income	399	947	1,024	740	1,004	20
Finance Charges	472	500	435	483	433	(2)
Income (Loss) Before Regulatory Account Transfers	(73)	447	589	257	571	18
Net Change in Regulatory Accounts	438	—	—	352	—	—
Net Income	\$ 365	\$ 447	\$ 589	\$ 609	\$ 571	\$ 18

RISK MANAGEMENT

BC Hydro faces risks to its business that could significantly impact its ability to achieve its short- and long-term financial, social and environmental goals. The goal of risk management is not to eliminate risks, but rather to mitigate them to levels which are commensurate with the potential benefits to be derived. Similarly, BC Hydro's risk management strategies aim to mitigate risks through a consistent risk management process that is applied to day-to-day business activities as well as to specific projects and initiatives. BC Hydro's Chief Risk Officer is responsible for facilitating this risk management process and promoting strong oversight of significant risks by the BC Hydro Risk Management Committee. BC Hydro's Board of Directors also plays a key role in the oversight of risk management, as the Board must understand the risks being taken by BC Hydro and ensure that processes are in place to appropriately manage the risks. BC Hydro's operations involve a broad spectrum of risks ranging from those commonly associated with any business to catastrophic societal loss risks that would have severe effects on entire regions.

The generation, transmission and distribution of electricity inherently results in certain safety risks to both BC Hydro workers and the public. To manage worker and public safety, BC Hydro relies on education and training, safe design, safety practice regulations and communication. BC Hydro also prepares emergency response plans to limit injury and loss to life and to restore electric service. The large dams represent a catastrophic loss risk (low probability but high consequence) in terms of life, safety, financial, environmental and reputation. This dam failure risk is managed through a comprehensive dam safety management system involving dam safety professionals and experts.

Significant risks to the reliability of BC Hydro's system include aging infrastructure and the impact of weather. Reliability risks could also result from either a lack of available generation supply or the associated transmission capacity to meet customer demand. BC Hydro manages these risks through long-term planning, asset maintenance and replacement programs, emergency response programs, a diverse supply of energy options, and through cooperative support arrangements with neighbouring utilities.

System inflows, market prices, and domestic load influence cost of energy. The system inflow energy for fiscal 2012 is now expected to be slightly above normal and the system is forecast to be in a small net sales position for fiscal 2012. Several factors constrain BC Hydro's ability to use its stored system energy to meet load throughout the year. These factors include generating unit outages at major plants (forced outages and capital projects) as well as water management constraints which limit generation at the major plants during some periods. Even when the system has annual net energy sales, some electricity purchases are likely required during constrained periods of the year (e.g. late fall, winter, early spring), while electricity sales may be unavoidable during other periods to minimize spill from system reservoirs. The value of these purchases and sales is subject to market price risk. Electricity demand is generally increasing as B.C.'s population increases. However this demand can be volatile, particularly due to large industrial customers who may curtail or expand their operations due to the state of export markets and world commodity prices. BC Hydro's risk mitigation strategy is to achieve energy security and price certainty by developing adequate domestic electricity supplies, and through energy conservation and efficiency. BC Hydro regularly models the projected supply-demand balance of the system over the short term to plan optimum system operations and over the medium term in an effort to cost-effectively meet demand.

Legal and regulatory requirements for First Nation consultation, claims of historic grievances, land claims, and service reliability issues pose risks to BC Hydro. These risks are managed through a comprehensive aboriginal relations program. Building mutually-beneficial relationships with First Nations reduces financial, legal, regulatory and operating risks.

In meeting its financial performance targets, BC Hydro faces many risks including uncertain economic conditions, variable costs and revenues as driven by energy costs, energy demand, interest and foreign exchange rates, pension obligations and energy trading. Of these, risks associated with energy costs—specifically water inflows and energy market prices—are the largest. Tariff rates are set based upon BC Hydro's cost forecast and allowed return on deemed equity. Many financial risks (differences between forecast and actual costs) associated with uncontrollable costs are mitigated through regulatory deferral accounts. Increasing costs due to aging infrastructure, the modernization and refurbishment of the electricity system, the need for new supply and the need to manage environmental impacts create challenges for BC Hydro in maintaining rates that meet customer expectations.

BC Hydro's energy trading subsidiary, Powerex, is exposed to the risk of variable market prices and counterparties who might not meet their obligations. Powerex manages these risks by operating through defined limits that are regularly reviewed by both the Powerex and BC Hydro Boards of Directors.

The economic downturn has improved the labour supply of engineers and senior managers and has also improved BC Hydro's ability to attract and retain staff in a variety of roles. The economic situation has also had the effect of delaying employee retirements; however, this may result in a sudden surge of retirements in the future with shorter notice periods. Apprentice programs and contingent workers partially mitigate this risk. In addition, the return on pension fund assets and the market discount rate at year end can have a significant impact on the cost of providing employee future benefits.

Areas where BC Hydro is exposed to the risk of non-compliance with environmental regulations include the release of hazardous materials into the environment and endangerment of wildlife and their habitats. These risks are managed through a variety of site specific risk management strategies.

FUTURE OUTLOOK

The *Budget Transparency and Accountability Act* requires that BC Hydro file a Service Plan each year. BC Hydro's Service Plan filed in February 2011 forecasts net income for fiscal 2012 at \$611 million. The Service Plan assumes a 9.73 per cent interim rate increase for fiscal 2012.

On March 1, 2011, BC Hydro filed its F2012-F2014 RRA with the BCUC, seeking approval for rate increases of 9.73 per cent for each of the next three years reflecting increasing capital-related costs, an increase in domestic energy costs and a reduction in forecast trade income. On April 21, 2011, the BCUC approved an interim rate increase of 8 per cent effective May 1, 2011 and suspended the regulatory review of the F2012-2014 RRA until the completion of a provincial government review of BC Hydro. The outcome of this review, along with changes in key assumptions such as water inflows, will be incorporated into an amended BC Hydro revenue requirements application to the BCUC, expected to be filed in late summer/early fall 2011.

BC Hydro's results can fluctuate significantly due to various non-controllable factors such as the level of water inflows, customer load, market prices for electricity and natural gas, weather, temperatures, interest rates and foreign exchange rates. The impact to net income of these non-controllable factors is largely mitigated through the use of regulatory accounts. The Service Plan forecast assumes average water inflows for fiscal 2012, customer load of 52,071 GWh, average market energy prices of CDN \$34.00/MWh, short-term interest rates of 1.66 per cent and a U.S. dollar exchange rate of US\$0.9861, an allowed return on equity of 14.38 per cent, and an interim rate increase of 9.73 per cent for fiscal 2012.

EARNINGS SENSITIVITY

The following table shows the effect on earnings of changes in some key variables. The analysis is based on business conditions and production volumes forecast for fiscal 2012. Each separate item in the sensitivity analysis assumes the others are held constant. While these sensitivities are applicable to the period and magnitude of changes on which they are based, they may not be applicable in other periods, under other economic circumstances or greater magnitude of changes.

The volatility between BC Hydro's plan and actual results are mostly mitigated through the use of BCUC-approved regulatory deferral accounts.

Factor	Change	Approximate change in earnings before regulatory deferral account transfers		
		(in millions)	5 year high	5 year low
Hydro generation ¹	1,000 GWh	\$ 35	52,140 GWh	39,303 GWh
Electricity trade margins	\$1/MWh	35	n/a	n/a
Interest rates	+/- 1%	50	4.50% ²	0.45% ²
Exchange rates (US/ CDN)	\$0.01	5	\$1.10 ³	\$0.88 ³
Weather	1°C change in average temperature	20	1.0°C ⁴	-1.5 °C ⁴
Pension costs	1% change in the expected return of 7.3% on pension assets ⁵	5	19.2%	-23.3%

¹ Assumes change in hydro generation is offset by corresponding change in energy imports (i.e. increase in hydro generation is offset by decrease in energy imports).

² Interest rates are the average Canadian short-term interest rates (3 month Canadian Dollar Offered Rate).

³ Exchange rates are the average US Dollar noon rates for F2007 to F2011.

⁴ Weather high and low numbers represents the variance in degrees Celsius from the normal temperatures over the winter months November to March from 2006/07 to 2010/11. (-1.5 degrees lower than normal to 1.0 degrees higher than normal— normal is the 10-year rolling average).

⁵ The impact of this change affects earnings in the subsequent year.

CONSOLIDATED FINANCIAL STATEMENTS 2011

MANAGEMENT REPORT

The consolidated financial statements of British Columbia Hydro and Power Authority (BC Hydro) are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles. The preparation of financial statements necessarily involves the use of estimates which have been made using careful judgment. In management's opinion, the consolidated financial statements have been properly prepared within the framework of the accounting policies summarized in the consolidated financial statements and incorporate, within reasonable limits of materiality, all information available at May 18, 2011. The consolidated financial statements have also been reviewed by the Audit & Risk Management Committee and approved by the Board of Directors. Financial information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

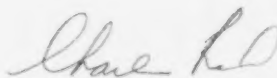
Management maintains systems of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. These systems include formal written policies and procedures, careful selection and training of qualified personnel and appropriate delegation of authority and segregation of responsibilities within the organization. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit & Risk Management Committee.

The consolidated financial statements have been examined by independent external auditors. The external auditors' responsibility is to express their opinion on whether the consolidated financial statements, in all material respects, fairly present BC Hydro's financial position, results of operations and cash flows in accordance with Canadian generally accepted accounting principles. The Auditors' Report, which follows, outlines the scope of their examination and their opinion.

The Board of Directors, through the Audit & Risk Management Committee, is responsible for ensuring that management fulfills its responsibility for financial reporting and internal controls. The Audit & Risk Management Committee, comprised of directors who are not employees, meets regularly with the external auditors, the internal auditors and management to satisfy itself that each group has properly discharged its responsibility to review the financial statements before recommending approval by the Board of Directors. The Audit & Risk Management Committee also recommends the appointment of external auditors to the Board of Directors. The internal and external auditors have full and open access to the Audit & Risk Management Committee, with and without the presence of management.



David Cobb
President and Chief Executive Officer



Charles Reid
Executive VP Finance & Chief Financial Officer

Vancouver, Canada
May 18, 2011

AUDITORS' REPORT

THE LIEUTENANT GOVERNOR IN COUNCIL, PROVINCE OF BRITISH COLUMBIA:

We have audited the accompanying consolidated financial statements of British Columbia Hydro and Power Authority, which comprise the consolidated balance sheet as at March 31, 2011, the consolidated statements of operations, comprehensive income, retained earnings and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

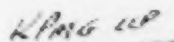
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of British Columbia Hydro and Power Authority as at March 31, 2011 and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Vancouver, Canada
May 18, 2011

CONSOLIDATED STATEMENT OF OPERATIONS

	<i>(Revised Note 1)</i>	
<i>for the years ended March 31 (in millions)</i>	2011	2010
Revenues		
Domestic	\$ 3,438	\$ 3,289
Trade	578	739
	4,016	4,028
Expenses		
Operating Costs		
Cost of energy (Note 6)	1,415	1,621
Other operating expenses (Note 6)	1,577	1,460
	2,992	3,081
Finance Charges (Note 7)	435	500
	3,427	3,581
Net Income	\$ 589	\$ 447

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>for the years ended March 31 (in millions)</i>	2011	2010
Net Income	\$ 589	\$ 447
Other Comprehensive Income (Note 15)	20	95
Comprehensive Income	\$ 609	\$ 542

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

<i>for the years ended March 31 (in millions)</i>	2011	2010
Retained Earnings, Beginning of Year	\$ 2,621	\$ 2,221
Net Income	589	447
Accrued Payment to the Province	(463)	(47)
Retained Earnings, End of Year	\$ 2,747	\$ 2,621

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET

(Revised Note 1)

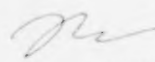
as at March 31 (in millions)

	2011	2010
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 27	\$ 9
Accounts receivable and accrued revenue	569	650
Inventories (Note 3)	128	118
Prepaid expenses	156	131
Current portion of derivative financial instrument assets (Note 12)	198	434
	1,078	1,342
Other Assets		
Property, plant and equipment (Note 8)	15,211	13,713
Intangible assets (Note 9)	335	282
Regulatory assets (Note 4)	2,436	2,157
Sinking funds (Note 10)	97	96
Employee future benefits (Note 14)	296	313
Derivative financial instrument assets (Note 12)	26	86
	18,401	16,647
	\$ 19,479	\$ 17,989
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 1,515	\$ 1,101
Current portion of long-term debt (Note 11)	2,793	2,074
Current portion of derivative financial instrument liabilities (Note 12)	159	393
	4,467	3,568
Other Liabilities		
Long-term debt (Note 11)	8,851	8,727
Regulatory liabilities (Note 4)	276	444
Deferred contributions	1,012	970
Derivative financial instrument liabilities, long-term (Note 12)	212	224
Other long-term liabilities (Note 13)	1,781	1,382
	12,132	11,747
Shareholder's Equity		
Contributed surplus (Note 19)	60	—
Retained earnings	2,747	2,621
Accumulated other comprehensive income (Note 15)	73	53
	2,880	2,674
	\$ 19,479	\$ 17,989

Commitments and Contingencies (Note 16)

See accompanying notes to consolidated financial statements.

Approved on Behalf of the Board:


Dan Doyle
Chairman

Tracey L. McVicar
Chair, Audit & Risk Management Committee

CONSOLIDATED STATEMENT OF CASH FLOWS

<i>for the years ended March 31 (in millions)</i>		<i>(Revised)</i>	
	2011	2010	
Operating Activities			
Net income	\$ 589	\$ 447	
Regulatory account transfers	(552)	(497)	
Adjustments for non-cash items:			
Amortization of regulatory accounts (Note 4)	32	68	
Amortization expense and depreciation	490	445	
Foreign exchange translation gains	(6)	(34)	
Unrealized losses (gains) on mark-to-market	15	(13)	
Employee benefit plan expenses	58	42	
Other items	38	(39)	
	664	419	
Changes in non-cash working capital:			
Accounts receivable and accrued revenue	102	63	
Accounts payable and accrued liabilities	(68)	(208)	
Prepaid expenses	(20)	35	
Inventories	(10)	64	
	4	(46)	
Cash provided by operating activities	668	373	
Investing Activities			
Property, plant and equipment and intangible asset expenditures	(1,483)	(1,554)	
Waneta dam and generating facility acquisition	—	(841)	
Deferred contributions	69	101	
Other items	7	2	
Cash used in investing activities	(1,407)	(2,292)	
Financing Activities			
Long-term debt			
Issued	593	2,116	
Retired	(150)	(631)	
Revolving borrowings, included in long-term debt	380	240	
Payment to the Province	(47)	—	
Repayment of capital lease liability	(19)	—	
Other items	—	13	
Cash provided by financing activities	757	1,738	
Increase (decrease) in cash and cash equivalents	18	(181)	
Cash and cash equivalents, beginning of year	9	190	
Cash and cash equivalents, end of year	\$ 27	\$ 9	
Supplemental Disclosure of Cash Flow Information			
Interest paid	\$ 555	\$ 509	
Non-cash transaction:			
Capital lease obligation included in other liabilities	\$ 480	\$ —	

See accompanying notes to consolidated financial statements.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

PURPOSE

British Columbia Hydro and Power Authority (BC Hydro) was established in 1962 as a Crown Corporation of the Province of British Columbia (the Province) by enactment of the *Hydro and Power Authority Act*. As directed by the *Hydro and Power Authority Act*, BC Hydro's mandate is to generate, manufacture, conserve and supply power. BC Hydro is subject to regulation (see Note 4) by the British Columbia Utilities Commission (BCUC) which, among other things, approves the rates BC Hydro charges for its services.

BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The consolidated financial statements include the accounts of BC Hydro and its wholly-owned operating subsidiaries, including Powerex Corp. (Powerex), Powertech Labs Inc., BCH Services Asset Corp., and Columbia Hydro Constructors Ltd., (collectively with BC Hydro, "the Company"). All intercompany transactions and balances are eliminated upon consolidation.

BC Hydro accounts for its one-third interest in the Waneta dam and generating facility as a jointly controlled asset with Teck Metals Ltd. A jointly controlled asset is considered a joint venture as it includes the joint ownership and control of one or more assets to obtain benefits for the venturers. Each venturer takes a share of the output from the assets for its own exclusive use. These consolidated financial statements include BC Hydro's proportionate share of the Waneta dam and generating facility. BC Hydro has also included its share of any liabilities and expenses incurred jointly with Teck Metals Ltd. and any revenue from the sale or use of its share of the output in relation to the Waneta dam and generating facility.

Certain amounts in the prior year's balance sheet related to prepaid expenses, inventories, property plant and equipment, deferred contributions, regulatory assets and regulatory liabilities, have been reclassified to conform to the current year's presentation, including the netting of \$107 million related to Columbia River Treaty contributions which are now presented net of the associated property plant and equipment.

Certain amounts in the prior year's statement of operations have been reclassified to conform to a change in the current year's classification of operating expenses to a presentation of costs based on the nature of the expenditures. Amounts previously presented as operations, maintenance and administration costs are now classified by the nature of the expense as outlined in Note 6. In addition, the Company has changed its presentation of the impact of regulation on its statement of operations. In prior periods the aggregate impact of regulatory accounting was shown as a single line item whereas in the current period the impact of regulation is netted against the corresponding expense or revenue line item in the statement of operations. This change results in the Company's presentation being more consistent with other regulated utilities in Canada. Detail on regulatory account transfers can be found in Note 4. Comparative balances have been reclassified to conform to the current period's presentation including reclassifications of amounts previously presented as domestic and trade revenue and expenses, amortization, and finance charges.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets, liabilities and commitments at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant items subject to management estimates and assumptions include the determination of the allowance for doubtful accounts, the fair value of sinking funds and derivative and non-derivative financial instruments, the actuarial assumptions used to value the employee future benefit plans, the useful lives of property, plant and equipment and intangible assets, amounts for accrued liabilities and contingencies, including environmental, First Nations, asset retirement and lease obligations, the accrual for unbilled revenue at period end, and the estimated net realizable value of inventory. Actual results could differ from these estimates.

REGULATORY ACCOUNTING

BC Hydro is regulated by the BCUC and both entities are subject to general or special directives and directions issued by the Province. BC Hydro operates primarily under a cost of service regulation as prescribed by the BCUC. Orders in Council from the Province establish the basis for determining BC Hydro's equity for regulatory purposes, as well as its allowed return on equity and the annual Payment to the Province (Note 5). Revenue requirements and rates charged to customers are established through applications filed with and approved by the BCUC.

BC Hydro applies various accounting policies that differ from GAAP for enterprises that do not operate in a rate-regulated environment (see Note 4). Generally, these policies result in deferral and amortization of costs and recoveries to allow for adjustment of future rates. In the absence of rate-regulation, these amounts would otherwise be included in the determination of net income in the year the amounts are incurred. These accounting policies support BC Hydro's regulation and have been established through ongoing application to, and approval by, the BCUC. When a regulatory account has been or will be applied for, and, in management's judgement, acceptance of deferral treatment by the BCUC is considered probable, BC Hydro defers such costs in advance of a final decision of the BCUC. If the BCUC subsequently denies the application for regulatory treatment, the remaining deferred amount is recognized in net income.

REVENUES AND ENERGY COSTS

Domestic revenues comprise sales to customers within the Province of British Columbia, and sales of firm energy outside the province under long-term contracts that are reflected in BC Hydro's domestic load requirements. Other sales outside the province are classified as trade.

Energy trading contracts that meet the definition of a financial or non-financial derivative are accounted for on a fair value basis whereby any realized gains and losses and unrealized changes in fair value are recognized in trade revenues in the period the change occurred.

Energy trading and other contracts which do not meet the definition of a derivative are accounted for on an accrual basis whereby the realized gains and losses are recognized as revenue as the contracts are settled. Such contracts are considered to be settled when, for the sale of products, the significant risks and rewards of ownership transfer to the buyer, and for the sale of services, those services are rendered.

Revenue is recognized on the basis of billing cycles and also includes accruals for electricity deliveries not yet billed.

FOREIGN CURRENCY TRANSLATION

Foreign currency denominated revenues and expenses are translated into Canadian dollars at the rate of exchange in effect at the transaction date. Foreign currency denominated monetary assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date. Exchange gains or losses arising from translation of foreign denominated monetary balances are reflected in finance charges in the statement of operations.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and units of a money market fund that are redeemable on demand and carried at fair value.

BRITISH COLUMBIA HYDRO AND POWER AUTHORITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2011 AND 2010

INVENTORIES

Inventories are comprised of materials and supplies and natural gas and are valued at the lower of weighted average cost and net realizable value. Cost of materials and supplies includes invoiced costs and directly attributable costs of acquiring the inventory. Net realizable value is the expected selling price in the ordinary course of business, less any costs expected to be incurred in selling the inventory.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment in service are recorded at cost which includes materials, direct and indirect labour, an appropriate allocation of administration overhead and finance charges capitalized during construction. Property, plant and equipment in service include the cost of plant and equipment financed by contributions in aid of construction and contributions arising from the Columbia River Treaty. The Columbia River Treaty contributions have been deducted from the cost of the related assets. Upon retirement or disposal, any gain or loss is charged to amortization.

Unfinished construction consists of costs of property, plant and equipment that are under construction or not ready for service. Costs are transferred to property, plant and equipment in service when the constructed asset is substantially complete and capable of operation at a pre-determined significant level of capacity.

Property, plant and equipment in service are amortized on an individual or pooled basis over the expected useful lives of the assets, using the straight-line method. Leased assets, which are included in Generation assets, are amortized over the lease term unless the useful life is shorter than the term of the lease.

The expected useful lives, in years, of BC Hydro's main classes of property, plant and equipment are:

Generation	
Hydraulic	50 - 100
Thermal	10 - 50
Other	15 - 25
Lines	35 - 100
Substations	20 - 50
Buildings	45 - 50
Equipment	7 - 20
Computer hardware	2 - 10
Service vehicles	7 - 20
Sundry	20 - 45

INTANGIBLE ASSETS

Intangible assets are recorded at cost. Intangible assets with indefinite useful lives are not subject to amortization. These assets are tested for impairment annually or more frequently if events indicate that the asset may be impaired.

Intangible assets with finite useful lives are amortized over their useful lives on a straight line basis. The expected useful lives, in years, are as follows:

Software	2 - 10
Sundry	10 - 20

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets, including property, plant and equipment and amortized intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be fully recoverable. Recoverability of assets is measured by a comparison of the carrying amount of the asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount exceeds its estimated future cash flows, an impairment charge is recognized by the amount that the carrying amount of the asset exceeds its fair value.

FINANCIAL INSTRUMENTS

FINANCIAL INSTRUMENTS—RECOGNITION AND MEASUREMENT

All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified or designated as "held-for-trading", or "available-for-sale", or classified as "held-to-maturity", "loans and receivables", or "other financial liabilities". Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading. For other financial instruments, transaction costs are capitalized on initial recognition. All regular-way purchases or sales of financial assets are accounted for on a settlement date basis.

Financial assets and financial liabilities held-for-trading are subsequently measured at fair value with changes in those fair values recognized in net income. Financial assets classified as available-for-sale are subsequently measured at fair value, with changes in those fair values recognized in other comprehensive income until realized. Financial assets classified as held-to-maturity or loans and receivables, and financial liabilities classified as other financial liabilities are subsequently measured at amortized cost using the effective interest method of amortization. Derivatives, including embedded derivatives that are not closely related to the host contract and must be separately accounted for, generally must be classified as held-for-trading and recorded at fair value in the consolidated balance sheet. The classification of financial instruments is described in Note 12.

DERIVATIVE FINANCIAL INSTRUMENTS

BC Hydro and its subsidiaries use derivative financial instruments to manage interest rate and foreign exchange risks related to debt and to manage foreign exchange risks and commodity price risk related to electricity and natural gas commodity transactions.

Interest rate and foreign exchange related derivative instruments that are not designated as hedges, are recorded using the mark-to-market method of accounting whereby instruments are recorded at fair value as either an asset or liability with changes in fair value recognized in net income. For liability management activities, the related gains or losses are included in finance charges. For foreign currency exchange risk associated with electricity and natural gas commodity transactions, the related gains or losses are included in domestic revenues. BC Hydro's policy is not to utilize interest rate and foreign exchange related derivative financial instruments for speculative purposes.

Derivative financial instruments are also used by Powerex to manage economic exposure to market risks relating to commodity prices. Derivatives used for energy trading activities that are not designated as hedges, are recorded using the mark-to-market method of accounting whereby instruments are recorded at fair value as either an asset or liability with changes in fair value recognized in net income. Gains or losses are included in trade revenues.

HEDGES

On initial designation of the hedge, BC Hydro formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. BC Hydro makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be effective in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 per cent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

In a fair value hedging relationship, the carrying value of the hedged item is adjusted for unrealized gains or losses attributed to the hedged risk and recognized in net income. Changes in the fair value of the hedged item attributed to the hedged risk, to the extent that the hedging relationship is effective, are offset by changes in the fair value of the hedging derivative, which is also recorded in net income. When hedge accounting is discontinued, the carrying value of the hedged item is no longer adjusted and the cumulative fair value adjustments to the carrying value of the hedged item are amortized to net income over the remaining term of the original hedging relationship, using the effective interest method of amortization.

In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative is recognized in other comprehensive income. The ineffective portion is recognized in net income. The amounts recognized in accumulated other comprehensive income are reclassified to net income in the periods in which net income is affected by the variability in the cash flows of the hedged item. When hedge accounting is discontinued, the cumulative gain or loss previously recognized in accumulated other comprehensive income remains there until the forecasted transaction occurs. When the hedged item is a non-financial asset or liability, the amount recognized in accumulated other comprehensive income is transferred to the carrying amount of the asset or liability when it is recognized. In other cases the amount recognized in accumulated other comprehensive income is transferred to net income in the same period that the hedged item affects net income.

Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge, the hedging relationship is discontinued, or the derivative is terminated or sold, or upon the sale or early termination of the hedged item.

DEFERRED CONTRIBUTIONS

Contributions in aid of construction are amounts paid by certain customers toward the cost of property, plant and equipment required for the extension of services. These amounts are amortized over the expected useful life of the related assets.

ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations are legal obligations associated with the retirement of long-lived assets. A liability is recorded in the period in which the obligation is incurred at the present value of the estimated future costs when a reasonable estimate of the fair value can be made. When a liability is initially recorded, BC Hydro capitalizes the costs by increasing the carrying value of the associated long-lived asset. The liability is adjusted for the passage of time through accretion (interest) expense and the capitalized cost is amortized over the useful life of the associated asset. Actual costs incurred upon settlement of an asset retirement obligation are charged against the related liability to the extent of the accrued balance. Any difference between the actual costs incurred upon settlement of the asset retirement obligation and the recorded liability is recognized as a gain or loss in earnings at that time.

BRITISH COLUMBIA HYDRO AND POWER AUTHORITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2011 AND 2010

LEASES

Leases entered into by BC Hydro are classified as either capital or operating leases. Leases where all of the benefits and risk of ownership rest with BC Hydro are accounted for as capital leases. At the lease inception date, capital leases are recognized as assets and liabilities at the lower of the fair value of the asset and the present value of the minimum lease payments. Minimum lease payments are apportioned between finance cost and a reduction of the outstanding liability. Finance costs are charged to net income over the term of the lease at interest rates applicable to the lease on the remaining balance of the obligations. Assets under capital leases are depreciated on the same basis as property, plant and equipment or over the term of the relevant lease period, whichever is shorter.

Leases where all of the benefits and risk of ownership do not rest with BC Hydro are accounted for as operating leases. Payments under operating leases are expensed on a straight-line basis unless another rational basis is more representative of the benefit to be received from the leased assets. Contingent lease payments are accounted for in the period in which they are incurred.

DETERMINING WHETHER AN ARRANGEMENT CONTAINS A LEASE

At inception of an arrangement, BC Hydro determines whether such an arrangement is or contains a lease under EIC 150, *Determining Whether an Arrangement Contains a Lease*. Certain energy purchase agreements where BC Hydro has committed to purchase power under long term agreements have been assessed as containing a lease. BC Hydro separates payments required by the energy purchase agreements into those for the lease and those for other elements such as services. Evaluation of these leases has resulted in the recognition of both operating and capital leases.

DEFINED BENEFIT PLANS

The cost of pensions and other post-retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected future health care costs. For the purpose of calculating the return on plan assets the assets are valued at fair value. The obligations are discounted using a market interest rate at the end of the year on high-quality corporate debt instruments that match the timing and amount of expected benefit payments.

Transitional obligations and assets and past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of active members at the date of amendment.

The excess of the net cumulative unamortized actuarial gain or loss over 10 per cent of the greater of the benefit obligation and the fair value of plan assets at the beginning of the year is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the employee benefit plans is 12 years (2010—11 years). When the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

BRITISH COLUMBIA HYDRO AND POWER AUTHORITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2011 AND 2010

ENVIRONMENTAL EXPENDITURES AND LIABILITIES

BC Hydro conducts its operations in a manner that enables it to meet existing statutory requirements of environmental legislation or standards. Environmental expenditures are expensed as part of operating activities, unless they constitute an asset improvement or act to mitigate or prevent possible future contamination, in which case the expenditures are capitalized and amortized to income. Environmental liabilities are accrued at the present value of the estimated future costs when environmental expenditures related to activities of BC Hydro are considered likely and the costs can be reasonably estimated. Estimated liabilities are reviewed periodically and these reviews can result in adjustments to previously recorded amounts.

TAXES

BC Hydro pays local government taxes and grants in lieu to municipalities and regional districts. As a Crown Corporation, BC Hydro is exempt from Canadian federal and provincial income taxes.

NOTE 2: FUTURE ACCOUNTING CHANGES

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The *Budget Transparency and Accountability Act* (BTAA) specifies that the Government and government organizations conform to the set of standards and guidelines that comprise generally accepted accounting principles for senior governments in Canada, unless otherwise directed by Treasury Board. Accounting standards for senior government are understood to mean standards established by the Public Sector Accounting Board (PSAB), which directs Government Business Enterprises (GBE) to adhere to International Financial Reporting Standards (IFRS). BC Hydro is classified as a GBE. Qualifying entities with rate-regulated activities have the option of deferring the adoption of IFRS and continuing to apply the accounting standards in Part V of the CICA Handbook—*Accounting* until their annual periods beginning on or after January 1, 2012. BC Hydro will use the deferral option. For subsequent years, alternatives available pursuant to Section 23.1 of the BTAA may be considered by Treasury Board. The Company is continuing to evaluate the impact on its consolidated financial statements of the adoption of IFRS and will work with Treasury Board with respect to potential alternatives.

NOTE 3: INVENTORIES

(in millions)	(Revised)	
	2011	2010
Materials and supplies	\$ 83	\$ 76
Natural gas trading inventories	45	42
Total	\$ 128	\$ 118

During the year ended March 31, 2011, a write-down of \$8 million (2010—\$5 million) was charged to cost of energy to adjust the cost of natural gas in storage to its net realizable value as a result of declines in market prices. At March 31, 2011, \$22 million (2010—\$35 million) of the carrying value of natural gas in storage was valued at net realizable value.

NOTE 4: REGULATION

RATE REGULATION

BC Hydro's fiscal 2011 Revenue Requirement Application (RRA) was filed with the BCUC on March 3, 2010 requesting a 6.11 per cent rate increase and that the Deferral account Rate Rider (DARR) increase from 1 per cent to 4 per cent. The increases were approved by the BCUC on an interim basis effective April 1, 2010.

BC Hydro and interveners entered into a negotiated settlement process in September 2010. A Negotiated Settlement Agreement (NSA) was reached and approved by the BCUC on December 2, 2010. The NSA confirmed the 6.11 per cent rate increase as final with a 4.71 per cent rate credit applied for the period January 1 to March 31, 2011 to reflect the NSA adjustments. The NSA also confirmed the DARR of 4.0 per cent for the period from April 1, 2010 to December 31, 2010, inclusive, and 2.5 per cent thereafter.

Additional provisions in the NSA included a \$5.5 million write-down of the Procurement Enhancement Initiative (PEI) Regulatory Account balance and \$10.3 million of the Demand-Side Management (DSM) Regulatory Account balance.

Results for the year ended March 31, 2011 reflect the final rate increase for fiscal 2011 and provisions in the BCUC approved NSA.

REGULATORY ACCOUNTS

The following regulatory assets and liabilities have been established through rate regulation. For the year ended March 31, 2011, the impact of regulatory accounting has resulted in an increase to net income of \$447 million (2010—\$695 million increase). Except as otherwise noted, all regulatory accounts were approved by the BCUC and established under a regulatory order.

<i>(in millions)</i>	<i>(Revised)</i> 2010	Addition (Reduction)	Amortization	Net Change	2011
Regulatory Assets					
Heritage Deferral Account	\$ 325	\$ (15)	\$ (63)	\$ (78)	\$ 247
Non-Heritage Deferral Account	119	266	(23)	243	362
BCTC Deferral Account	18	(15)	(3)	(18)	—
Trade Income Deferral Account	122	89	(23)	66	188
Demand-Side Management Programs	442	128	(64)	64	506
First Nation Negotiations, Litigation and Settlement Costs	399	6	(6)	—	399
Non-Current Pension Cost	86	3	(17)	(14)	72
Site C	60	44	—	44	104
Environmental Compliance	321	(83)	(7)	(90)	231
Other Regulatory Accounts	265	79	(17)	62	327
Total Regulatory Assets	2,157	502	(223)	279	2,436
Regulatory Liabilities					
Future Removal and Site Restoration Costs	159	—	(19)	(19)	140
Foreign Exchange Gains and Losses	101	5	—	5	106
Finance Charges	104	4	(104)	(100)	4
Other Regulatory Accounts	80	14	(68)	(54)	26
Total Regulatory Liabilities	444	23	(191)	(168)	276
Net Regulatory Asset	\$ 1,713	\$ 479	\$ (32)	\$ 447	\$ 2,160

BRITISH COLUMBIA HYDRO AND POWER AUTHORITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2011 AND 2010

<i>(in millions)</i>	2009	Addition (Reduction)	Amortization	Net Change	2010
Regulatory Assets					
Heritage Deferral Account	\$ 329	\$ 25	\$ (29)	\$ (4)	\$ 325
Non-Heritage Deferral Account	74	52	(7)	45	119
BCTC Deferral Account	9	10	(1)	9	18
Trade Income Deferral Account— Asset	—	115	7	122	122
Demand-Side Management Programs	364	130	(52)	78	442
First Nation Negotiations, Litigation and Settlement Costs	389	16	(6)	10	399
Non-Current Pension Cost	—	86	—	86	86
Site C	35	25	—	25	60
Environmental Compliance	—	321	—	321	321
Other Regulatory Accounts	160	110	(5)	105	265
Total Regulatory Assets	1,360	890	(93)	797	2,157
Regulatory Liabilities					
Future Removal and Site Restoration Costs	172	—	(13)	(13)	159
Trade Income Deferral Account—Liability	80	(80)	—	(80)	—
Foreign Exchange Gains and Losses	57	34	10	44	101
Finance Charges	—	104	—	104	104
Other Regulatory Accounts	33	47	—	47	80
Total Regulatory Liabilities	342	105	(3)	102	444
Net Regulatory Asset	\$ 1,018	\$ 785	\$ (90)	\$ 695	\$ 1,713

HERITAGE DEFERRAL ACCOUNT (HDA)

Under a Special Directive issued by the Province, BCUC was directed to authorize BC Hydro to establish the HDA. This account is intended to mitigate the impact of certain variances between the forecasted costs in a revenue requirements application and actual costs of service associated with the Heritage Resources by adjustment of net income. In the absence of rate regulation, GAAP would require the inclusion of these cost variances in operating results in the year in which they are incurred, which would have resulted in a \$78 million increase in net income (2010—\$4 million increase).

NON-HERITAGE DEFERRAL ACCOUNT (NHDA)

Under a Special Directive issued by the Province, BCUC approved the establishment of the NHDA, which is intended to mitigate the impact of certain cost variances between the forecasted costs in a revenue requirements application and actual costs related to energy acquisition and maintenance of BC Hydro's distribution assets by adjustment of net income. In the absence of rate regulation, GAAP would require the inclusion of the cost variances deferred in the NHDA in operating results in the year in which they are incurred, which would have resulted in a \$243 million decrease in net income (2010—\$45 million decrease).

BCTC DEFERRAL ACCOUNT

Under a Special Directive issued by the Province, variances that arose between the costs of transmission services included in BC Hydro's rates and BCTC's rates are deferred. In the absence of rate regulation, GAAP would require the inclusion of these cost variances in operating results in the year in which they are incurred, which would have resulted in a \$18 million increase in net income (2010—\$9 million decrease). The BCTC deferral account balance has been transferred to the Non-Heritage Deferral Account and the account has been terminated.

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TRADE INCOME DEFERRAL ACCOUNT

Established under a Special Directive issued by the Province, this account is intended to mitigate the uncertainty associated with forecasting the net income of BC Hydro's trade activities. The impact is to defer the difference between the Trade Income forecast in the revenue requirements application and actual Trade Income. For the purposes of this calculation, Trade Income is defined as the net income of Powerex based on GAAP. The difference between the Trade Income forecast and actual Trade Income is deferred except for amounts arising from a net loss in Trade Income or the portion of Trade Income in excess of \$200 million.

In the absence of rate regulation, GAAP would require the inclusion of actual Trade Income to be reflected in operating results, regardless of the variance between forecast and actual amounts, which would have resulted in a \$66 million decrease in net income (2010—\$202 million decrease).

DEMAND-SIDE MANAGEMENT PROGRAMS

Amounts incurred for demand-side management programs (DSM) are deferred and amortized on a straight-line basis over the anticipated period of benefit of the program, over a period of 10 years. DSM programs are designed to reduce the energy requirements on BC Hydro's system. Costs of the programs include materials, direct labour and applicable portions of administration charges, equipment costs, and incentives.

In the absence of rate regulation, GAAP would require period costs to be included in operating results in the year in which they are incurred. Costs relating to identifiable tangible assets that meet the capitalization criteria are recorded as property, plant and equipment. In fiscal 2011, \$128 million of DSM program period costs were incurred and amortization of previously capitalized amounts totaled \$64 million (2010—\$130 million and \$52 million, respectively). Consequently, net income would have been \$64 million lower than would have been recorded in the absence of rate regulation (2010—\$78 million decrease).

FIRST NATION NEGOTIATIONS, LITIGATION AND SETTLEMENT COSTS

Provisions for and costs incurred with respect to First Nation negotiations, litigation and settlements are deferred and costs incurred are amortized on a straight-line basis over a period of 10 years.

In the absence of rate regulation, GAAP would require period costs to be included in operating results in the year in which they are incurred. Costs relating to identifiable tangible assets that meet the capitalization criteria are recorded as property, plant and equipment. In fiscal 2011, \$6 million (2010—\$16 million) of period costs were recorded as regulatory assets, and the amortization of previously capitalized amounts totaled \$6 million (2010 —\$6 million). Consequently, there is no impact on net income for 2011 (2010—\$10 million decrease).

NON-CURRENT PENSION COST

Variances that arise between forecast and actual non-current pension cost are deferred. In the absence of rate regulation, GAAP would require the inclusion of these cost variances in operating results in the year in which they are incurred, which would have resulted in a \$14 million increase in net income (2010—\$86 million decrease).

SITE C

Site C expenditures incurred in fiscal 2007 through fiscal 2011 have been deferred. In the absence of rate regulation, GAAP would require the inclusion of these cost variances in operating results in the year in which they are incurred, which would have resulted in a \$44 million decrease in net income (2010—\$25 million decrease).

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ENVIRONMENTAL COMPLIANCE

A liability provision for environmental compliance and remediation arising from the costs that will likely be incurred to comply with the Federal Polychlorinated Biphenyl (PCB) Regulations enacted under the *Canadian Environmental Protection Act* and the remediation of environmental contamination at Rock Bay was deferred. In the absence of rate regulation, GAAP would require the inclusion of the provision in operating results in the year in which it is recognized, which would have resulted in a \$90 million increase in net income (2010 - \$321 million decrease).

FUTURE REMOVAL AND SITE RESTORATION COSTS

This account was established by a one-time transfer of \$251 million from retained earnings. The costs of dismantling and disposal of property, plant and equipment will be applied to this regulatory liability if they do not otherwise relate to an asset retirement obligation.

This liability has been recognized solely as a result of rate regulation as costs for future removal and site restoration have been established in excess of amounts required as asset retirement obligations. In the absence of rate regulation, it is likely that a liability would not be recognized. The amortization of previously capitalized amounts totaled \$19 million in the current year (2010—\$13 million). Consequently, net income would be \$19 million lower than would have been recorded in the absence of rate regulation.

FOREIGN EXCHANGE GAINS AND LOSSES

Foreign exchange gains and losses from the translation of specified foreign currency financial instruments are deferred. In the absence of rate regulation, GAAP would require the inclusion of these cost variances in operating results in the year in which they are incurred, which would have resulted in a \$5 million increase in net income (2010—\$44 million increase).

FINANCE CHARGES

Variances that arise between forecast and actual finance charges are deferred. In the absence of rate regulation, GAAP would require the inclusion of these cost variances in operating results in the year in which they are incurred, which would have resulted in a decrease of \$100 million in net income (2010—\$104 million increase).

OTHER REGULATORY ACCOUNTS

Other regulatory asset accounts with individual balances less than \$60 million include the following: Depreciation Study Adjustments, Contributions in Aid of Construction Amortization Variance, Capital Project Investigation Costs, Procurement Enhancement Initiative Costs, Smart Metering and Infrastructure Project Costs (SMI), GM Shrum Unit 3 Outage, Home Purchase Option Plan, Return on Equity (ROE) Adjustment, and Waneta Rate Smoothing.

In January 2011, BC Hydro divested the assets of four domestic water systems, referred to collectively as the Arrow Water Systems, to the Regional District of Central Kootenay. BC Hydro is applying to and awaiting approval from the BCUC for a regulatory account, "Arrow Water Systems Divestiture", to defer divestiture costs relating to the transfer in order to recover them through rates in future years, which total \$11 million as at March 31, 2011.

BC Hydro has applied and is awaiting approval from the BCUC to defer fiscal 2011 costs related to SMI, which are \$15 million (asset) as at March 31, 2011.

In 2011, \$62 million of costs deferred to these accounts would have decreased net income in the absence of rate regulation (2010—\$105 million decrease).

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Other regulatory liability accounts with individual balances less than \$15 million include the following: Net Employment Costs, Amortization of Capital Additions, Storm Damage, and Taxes.

In 2011, \$54 million of costs deferred to these accounts would have decreased net income in the absence of rate regulation (2010—\$47 million increase).

For certain of the regulatory items identified above, the expected recovery or settlement period, or likelihood of recovery or settlement, is under the authority of the BCUC.

NOTE 5: CAPITAL MANAGEMENT

Orders in Council ("OIC") from the Province establish the basis for determining BC Hydro's equity for regulatory purposes, as well as its allowed return on equity and the annual Payment to the Province. Capital requirements are consequently managed through the retention of equity subsequent to the Payment to the Province and the imposed requirement of maintaining a debt to equity ratio not exceeding 80:20.

BC Hydro monitors its capital structure on the basis of its debt to equity ratio. For this purpose, the applicable OIC defines debt as revolving borrowings and interest-bearing borrowings less investments held in sinking funds and cash and cash equivalents. Effective April 1, 2008, equity for regulatory purposes comprises retained earnings and accumulated other comprehensive income (loss).

BC Hydro manages its capital so as not to exceed the 80:20 debt to equity ratio as defined by the Province. During the year ended March 31, 2011, there were no changes in the approach to capital management.

The debt to equity ratio at March 31, 2011 and March 31, 2010 was as follows:

<i>(in millions)</i>	2011	2010
Total long-term debt, net of sinking funds	\$ 11,547	\$ 10,705
Less: cash and cash equivalents	(27)	(9)
Net Debt	\$ 11,520	\$ 10,696
Retained earnings	\$ 2,747	\$ 2,621
Contributed surplus (Note 19)	60	—
Accumulated other comprehensive income	73	53
Total Equity	\$ 2,880	\$ 2,674
Net Debt to Equity Ratio	80 : 20	80 : 20

PAYMENT TO THE PROVINCE

Under a Special Directive from the Province, BC Hydro is required to make an annual Payment to the Province (the Payment) on or before June 30 of each year. The Payment is equal to 85 per cent of BC Hydro's distributable surplus for the most recently completed fiscal year assuming that the debt to equity ratio, as defined by the Province, after deducting the Payment, is not greater than 80:20. If the Payment would result in a debt to equity ratio exceeding 80:20, then the Payment will be based on the greatest amount that can be paid without causing the debt to equity ratio to exceed 80:20. The Payment accrued as at March 31, 2011 is \$463 million (2010—\$47 million) and is capped due to the debt to equity ratio.

In November 2010, Treasury Board approved a change in how the allowed return on equity (ROE) is calculated. Allowed ROE will now be based on an assets-in-service rate base instead of debt and equity. This change will take effect April 1, 2011 as per Order in Council No. 020 approved on February 2, 2011.

NOTE 6: OPERATING COSTS

COST OF ENERGY

<i>(in millions)</i>	2011	2010
Electricity and gas purchases	\$ 924	\$ 1,058
Water rentals	305	315
Transmission charges	186	248
Total	\$ 1,415	\$ 1,621

OTHER OPERATING EXPENSES

<i>(in millions)</i>	2011	2010
Personnel expenses	\$ 541	\$ 472
Materials and external services	585	605
Amortization and depreciation	533	487
Grants and taxes	184	178
Other costs	4	(2)
Capitalized costs	(270)	(280)
Total	\$ 1,577	\$ 1,460

AMORTIZATION

<i>(in millions)</i>	2011	<i>(Revised)</i> 2010
Amortization of property, plant and equipment in service	\$ 471	\$ 381
Amortization of intangible assets	49	42
Amortization of deferred contributions	(39)	(39)
Amortization of regulatory accounts	52	103
Total	\$ 533	\$ 487

NOTE 7: FINANCE CHARGES

<i>(in millions)</i>	2011	<i>(Revised)</i> 2010
Interest on long-term debt	\$ 549	\$ 514
Other	(62)	44
	487	558
Less: Assigned to unfinished construction	(52)	(58)
Total	\$ 435	\$ 500

NOTE 8: PROPERTY, PLANT AND EQUIPMENT

<i>(in millions)</i>	2011			2010		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Generation						
Hydraulic	\$ 7,005	\$ 1,939	\$ 5,066	\$ 6,576	\$ 1,821	\$ 4,755
Thermal	625	321	304	450	288	162
Other	367	31	336	56	28	28
	7,997	2,291	5,706	7,082	2,137	4,945
Transmission	6,426	2,927	3,499	6,112	2,808	3,304
Distribution	5,543	1,781	3,762	5,200	1,648	3,552
Land and Buildings	567	223	344	516	205	311
Equipment and Other	547	246	301	474	247	227
Unfinished Construction	1,599	—	1,599	1,374	—	1,374
Total	\$ 22,679	\$ 7,468	\$ 15,211	\$ 20,758	\$ 7,045	\$ 13,713

Property, plant and equipment under capital leases of \$480 million (2010—\$ nil), net of accumulated amortization of \$15 million (2010—\$ nil), are included in the total amount of property, plant and equipment above.

NOTE 9: INTANGIBLE ASSETS

<i>(in millions)</i>	2011			2010		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Subject to Amortization						
Software	\$ 409	\$ 263	\$ 146	\$ 298	\$ 207	\$ 91
Internally developed software	47	39	8	46	38	8
Sundry	32	18	14	33	15	18
Work In Progress	12	—	12	18	—	18
	500	320	180	395	260	135
Not Subject to Amortization						
Land rights	155	—	155	147	—	147
Total	\$ 655	\$ 320	\$ 335	\$ 542	\$ 260	\$ 282

NOTE 10: SINKING FUNDS

Sinking funds are held by the Trustee (the Minister of Finance for the Province) for the redemption of long-term debt. The sinking fund balances at the balance sheet date include the following investments:

(in millions)	2011		2010	
	Carrying Value	Weighted Average Effective Rate ¹	Carrying Value	Weighted Average Effective Rate ¹
Province and BC Crown Corporation bonds	\$ 60	4.6 %	\$ 61	5.4 %
Federal and other provincial government securities	37	4.7 %	35	5.5 %
Total	\$ 97		\$ 96	

¹ Rate calculated on market yield to maturity.

Effective December 12, 2005, all sinking fund payment requirements on all new and outstanding debt have been removed.

NOTE 11: LONG-TERM DEBT AND DEBT MANAGEMENT

BC Hydro's long-term debt comprises bonds and debentures and revolving borrowings obtained under an agreement with the Province.

BC Hydro's commercial paper borrowing program with the Province, which includes revolving borrowings, is limited to \$3,000 million. At March 31, 2011, the outstanding amount under this borrowing program was \$2,333 million (2010 - \$1,924 million).

During fiscal 2011, BC Hydro issued bonds with a par value of \$600 million (2010—\$2,070 million), a weighted average effective interest rate of 3.9 per cent (2010—4.6 per cent) and a weighted average term to maturity of 13.9 years (2010—23.1 years). On July 5, 2010, BC Hydro assumed \$70 million of long-term debt from British Columbia Transmission Corporation (BCTC) with a weighted average effective interest rate of 4.8 per cent and weighted average term to maturity of 7.5 years (Note 19).

Long-term debt, expressed in Canadian dollars, is summarized in the following table by year of maturity:

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(dollar amounts in millions of Canadian dollars)

	2011				2010			
	Canadian	US	Total	Weighted Average Interest Rate ¹	Canadian	US	Total	Weighted Average Interest Rate ¹
Maturing in fiscal:								
2011	\$ —	\$ —	\$ —	—	\$ 150	\$ —	\$ 150	6.5
2012	450	—	450	6.1	450	—	450	6.1
2013	200	—	200	4.8	200	—	200	4.8
2014	500	194	694	6.6	500	203	703	6.6
2015	325	—	325	5.5	325	—	325	5.5
2016	150	—	150	5.2	—	—	—	—
1–5 years	1,625	194	1,819	6.0	1,625	203	1,828	6.1
6–10 years	2,345	194	2,539	5.9	1,325	203	1,528	4.7
11–15 years	936	486	1,422	7.7	1,536	—	1,536	9.2
16–20 years	500	—	500	5.0	500	508	1,008	5.8
21–25 years	800	—	800	5.5	800	—	800	5.5
26–30 years	1,250	292	1,542	5.3	—	305	305	7.4
Over 30 years	470	—	470	4.7	1,620	—	1,620	4.8
Bonds and debentures	7,926	1,166	9,092	6.0	7,406	1,219	8,625	6.1
Revolving borrowings	2,261	72	2,333	1.2	1,924	—	1,924	0.4
	10,187	1,238	11,425		9,330	1,219	10,549	
Adjustments to carrying value resulting from hedge accounting	77	21	98		96	22	118	
Unamortized premium, discount, and issue costs	132	(11)	121		146	(12)	134	
	\$10,396	\$ 1,248	\$11,644		\$ 9,572	\$ 1,229	\$10,801	
Less: Current portion			2,793				2,074	
Long-term debt			\$ 8,851				\$ 8,727	

¹ The weighted average interest rate represents the effective rate of interest on fixed-rate bonds and the current interest in effect at March 31 for floating-rate bonds, all before considering the effect of derivative financial instruments used to manage interest rate risk.

The following interest rate contracts were in place at March 31, 2011 in an asset position of \$20 million (2010—\$28 million). Floating rates are based on the effective rates at the balance sheet date and vary over time. Such contracts are used to hedge the impact of interest rate changes on debt.

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<i>(dollar amounts in millions)</i>	2011	2010
Receive fixed, pay floating rate swaps		
Notional amount ¹	\$ 1,194	\$ 1,203
Weighted average receive rate	3.66%	3.66%
Weighted average pay rate	1.14%	0.42%
Weighted terms	2 years	3 years
Receive floating, pay fixed rate swaps		
Notional amount ¹	\$ 290	\$ 290
Weighted average receive rate	1.47%	0.61%
Weighted average pay rate	4.90%	4.90%
Weighted terms	2 years	3 years

¹ Notional amount for a derivative instrument is defined as the contractual amount on which payments are calculated.

The following foreign currency contracts were in place at March 31, 2011 in a liability position of \$179 million (2010—liability of \$149 million). Such contracts are primarily used to hedge foreign dollar principal payments

<i>(dollar amounts in millions)</i>	2011	2010
Cross-Currency Swaps		
United States dollar to Canadian dollar – notional amount ¹	US \$ 200	US \$ 200
United States dollar to Canadian dollar – weighted average contract rate	1.45	1.45
Weighted remaining term	2 years	3 years

¹ Notional amount for a derivative instrument is defined as the contractual amount on which payments are calculated.

<i>(dollar amounts in millions)</i>	2011	2010
Foreign Currency Forwards		
United States dollar – notional amount ¹	US \$ 897	US \$ 864
United States dollar – weighted average contract rate	1.18	1.19
Weighted remaining term	14 years	16 years

¹ Notional amount for a derivative instrument is defined as the contractual amount on which payments are calculated.

NOTE 12: FINANCIAL INSTRUMENTS

FINANCIAL RISKS

BC Hydro is exposed to a number of financial risks in the normal course of its business operations, including market risks resulting from fluctuations in commodity prices, interest rates and foreign currency exchange rates, as well as credit risks and liquidity risks. The nature of the financial risks and BC Hydro's strategy for managing these risks has not changed significantly from the prior period.

The following discussion is limited to the nature and extent of risks arising from financial instruments, as defined under Section 3862 of the CICA Handbook. However, for a complete understanding of the nature and extent of risks BC Hydro is exposed to, this note should be read in conjunction with BC Hydro's discussion of Risk Management found in the Management Discussion and Analysis section of the 2011 Annual Report.

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(a) Credit Risk

Credit risk refers to the risk that one party to a financial instrument will cause a financial loss for a counterparty by failing to discharge a contractual obligation. BC Hydro is exposed to credit risk related to cash and cash equivalents, sinking fund investments, and derivative instruments. It is also exposed to credit risk related to accounts receivable arising from its day to day electricity and natural gas sales in and outside British Columbia. Maximum credit risk with respect to financial assets is limited to the carrying amount presented on the balance sheet with the exception of U.S. dollar sinking funds classified as held-to-maturity and carried on the balance sheet at amortized cost of \$97 million. The maximum credit risk exposure for these U.S. dollar sinking funds as at March 31, 2011 is its fair value of \$103 million. BC Hydro manages this risk through Board-approved credit risk management policies which contain limits and procedures to the selection of counterparties. Exposures to credit risks are monitored on a regular basis.

(b) Liquidity Risk

Liquidity risk refers to the risk that BC Hydro will encounter difficulty in meeting obligations associated with financial liabilities. BC Hydro manages liquidity risk by forecasting cash flows to identify financing requirements and by maintaining committed credit facilities. BC Hydro's long-term debt comprises bonds and debentures and revolving borrowings obtained under an agreement with the Province. Cash from operations reduces BC Hydro's liquidity risk. BC Hydro does not believe that it will encounter difficulty in meeting its obligations associated with financial liabilities.

(c) Market Risks

Market risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk, and price risk, such as changes in commodity prices and equity values. BC Hydro monitors its exposure to market fluctuations and may use derivative contracts to manage these risks, as it considers appropriate. Other than in its energy trading subsidiary Powerex, BC Hydro does not use derivative contracts for trading or speculative purposes.

i. Currency Risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. BC Hydro's currency risk is primarily with the U.S. dollar.

The majority of BC Hydro's currency risk arises from long-term debt in the form of U.S. dollar denominated bonds. Energy commodity prices are also subject to currency risk as they are primarily denominated in U.S. dollars. As a result, BC Hydro's trade revenues and purchases of energy commodities, such as electricity and natural gas, and associated accounts receivable and accounts payable, are affected by the Canadian/U.S. dollar exchange rate. In addition, all commodity derivatives and contracts priced in U.S. dollars are also affected by the Canadian/U.S. dollar exchange rate.

BC Hydro actively manages its currency risk through a number of Board-approved policy documents. BC Hydro uses cross currency swaps and forward foreign exchange purchase contracts to achieve and maintain the Board-approved U.S. dollar exposure targets.

ii. Interest Rate Risk

Interest rate risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. BC Hydro is exposed to changes in interest rates primarily through its variable rate debt and the active management of its debt portfolio including its related sinking fund assets and temporary investments. BC Hydro Board-approved debt management strategies include maintaining a percentage of variable interest rate debt within a certain range. BC Hydro enters into interest rate swaps to achieve and maintain the target range of variable interest rate debt.

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iii. Commodity Price Risk

BC Hydro is exposed to commodity price risk as fluctuations in electricity prices and natural gas prices could have a materially adverse effect on its financial condition. Prices for electricity and natural gas fluctuate in response to changes in supply and demand, market uncertainty, and a variety of other factors beyond BC Hydro's control.

BC Hydro enters into derivative contracts to manage commodity price risk. Risk management strategies, policies and limits are designed to ensure BC Hydro's risks and related exposures are aligned with the Company's business objectives and risk tolerance. Risks are managed within defined limits that are regularly reviewed by the Board of Directors.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the amount of consideration that would be exchanged in an arm's-length transaction between knowledgeable and willing parties who are under no compulsion to act. Fair values can be determined by reference to last quoted prices in the most advantageous active market for that instrument.

When quoted prices in an active market are not available, BC Hydro maximizes the use of other observable market data and comparable transactions as inputs to industry accepted valuation techniques and models, such as option pricing models and discounted cash flow models, to determine the fair value. In some circumstances, Powerex uses valuation inputs that are not based on observable market data and internally developed valuation models which are usually based on models and techniques commonly used within the energy industry.

BC Hydro also takes into account the effects of liquidity and credit risk on the fair value of derivative financial instruments.

The inputs used in determining fair value are characterized by using a hierarchy that prioritizes inputs based on the degree to which they are observable. The three levels of the fair value hierarchy are as follows:

Level 1 values are quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2 inputs are those other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, as of the reporting date.

Level 3 inputs are those that are not based on observable market data.

The following tables present the financial instruments measured at fair value for each hierarchy level as follows:

<i>As at March 31, 2011</i>	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 27	\$ —	\$ —	\$ 27
Revolving borrowings	—	(2,333)	—	(2,333)
Derivatives designated as hedges	—	(155)	—	(155)
Derivatives not designated as hedges	(1)	(22)	31	8
	\$ 26	\$ (2,510)	\$ 31	\$ (2,453)

<i>As at March 31, 2010</i>	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 9	\$ —	\$ —	\$ 9
Revolving borrowings	—	(1,924)	—	(1,924)
Derivatives designated as hedges	—	(121)	—	(121)
Derivatives not designated as hedges	6	10	8	24
	\$ 15	\$ (2,035)	\$ 8	\$ (2,012)

There were no transfers between Levels 1 and 2 during the year ended March 31, 2011 and 2010.

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The following table reconciles the changes in the balance of financial instruments carried at fair value on the balance sheet, classified as Level 3, for the years ended March 31, 2011 and March 31, 2010:

	2011 Derivatives not designated as hedges	2010 Derivatives not designated as hedges
Opening Balance	\$ 8	\$ 46
Net gain (loss) recognized	51	(13)
New transactions	7	8
Existing transactions settled	(35)	(33)
Closing Balance	\$ 31	\$ 8

A net gain of \$41 million recognized in net income during the year ended March 31, 2011 (2010—net loss of \$20 million) relates to Level 3 financial instruments held at March 31, 2011. The net gain is recognized in trade revenue and expense.

The Company believes that the use of reasonable alternative valuation input assumptions in the calculation of Level 3 fair values would not result in significantly different fair values.

The following table provides a comparison of carrying values and fair values for non-derivative financial instruments as at March 31:

	2011		2010		Interest Income (Expense) recognized in Finance Charges	Interest Income (Expense) recognized in Finance Charges
	Carrying Value	Fair Value	Carrying Value	Fair Value	2011	2010
Held for Trading:						
Cash and cash equivalents	\$ 27	\$ 27	\$ 9	\$ 9	\$ —	\$ —
Revolving borrowings – CDN	(2,261)	(2,261)	(1,924)	(1,924)	(27)	(38)
Revolving borrowings – US	(72)	(72)	—	—	—	—
Loans and Receivables:						
Accounts receivable and accrued revenue	569	569	650	650	—	—
Held to Maturity:						
Sinking funds – US	97	103	96	95	4	5
Other Financial Liabilities:						
Accounts payable and accrued liabilities	(1,515)	(1,515)	(1,101)	(1,101)	—	—
Long-term debt (including current portion due in one year)	(9,311)	(10,375)	(8,877)	(9,776)	(522)	(476)
Other	(63)	(63)	(62)	(62)	—	—

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For non-derivative financial assets and liabilities classified as held-for-trading, a \$1 million loss (2010—\$3 million gain) has been recognized in net income for the period relating to changes in fair value. For loans and receivables, and accounts payable and accrued liabilities, the carrying value approximates fair value due to the short term nature of these financial instruments. For available-for-sale financial assets, no amount has been recorded in other comprehensive income and no amount was removed from other comprehensive income and reported in net income for the period.

The fair value of derivative instruments designated or not designated as hedges, was as follows:

	2011		2010	
(in millions)	Carrying Value	Fair Value	Carrying Value	Fair Value
Designated Hedges Used to Manage Risk				
Associated with Long-term Debt:				
Foreign currency contracts (cash flow hedges for \$US denominated long-term debt)	\$ (178)	\$ (178)	\$ (154)	\$ (154)
Interest rate swaps (fair value hedges for debt)	23	23	33	33
	(155)	(155)	(121)	(121)
Non-Designated Hedges:				
Foreign currency contracts	(4)	(4)	—	—
Commodity derivatives	12	12	24	24
	8	8	24	24
Total	\$ (147)	\$ (147)	\$ (97)	\$ (97)

Information related to the foreign currency and interest rate swaps contracts is presented in Note 11. Additional information related to the fair value of the commodity derivatives is as follows:

	Notional Quantity of Natural Gas (in TJ)	Notional Quantity of Electricity (in GWh)	Carrying Value	Fair Value	Maximum Term (in months)
<i>As at March 31, 2011</i>					
Current assets	9,493	6,937	\$ 169	\$ 169	12
Long-term assets	3,246	584	18	18	90
Current liabilities	5,231	4,159	(146)	(146)	12
Long-term liabilities	5,022	258	(29)	(29)	105
Total			\$ 12	\$ 12	

	Notional Quantity of Natural Gas (in TJ)	Notional Quantity of Electricity (in GWh)	Carrying Value	Fair Value	Maximum Term (in months)
<i>As at March 31, 2010</i>					
Current assets	96,555	15,167	\$ 408	\$ 408	12
Long-term assets	13,363	3,086	62	62	102
Current liabilities	79,312	13,458	(385)	(385)	12
Long-term liabilities	12,786	2,600	(61)	(61)	33
Total			\$ 24	\$ 24	

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Notional quantities in the above tables are presented on a net basis and do not necessarily represent the amounts to be exchanged by the parties to the instruments. Furthermore, the magnitude of the notional amounts does not necessarily correlate to the carrying value or fair value of the commodity derivatives.

The derivatives are represented on the balance sheet as follows:

	2011	2010
	\$ 198	\$ 434
Current portion of derivative financial instrument assets	(159)	(393)
Current portion of derivative financial instrument liabilities		
	26	86
Derivative financial instrument assets, long-term	(212)	(224)
Derivative financial instrument liabilities, long-term	\$ (147)	\$ (97)
Total		

For the year ended March 31, 2011 a loss of \$1 million (2010—nil) was recognized in finance charges related to the ineffective portion of designated cash flow hedges and fair value hedges. For designated cash flow hedges for the year ended March 31, 2011, a loss of \$24 million (2010—loss of \$150 million) was recognized in other comprehensive income. For the year ended March 31, 2011, \$44 million (2010—\$245 million) was removed from other comprehensive income and reported in net income, offsetting foreign exchange gains (2010—gains) recorded in the year.

For derivatives not designated as hedging instruments, a gain of \$1 million (2010—\$1 million) was recognized in domestic revenue for the year ended March 31, 2011 with respect to foreign currency contracts for cash management purposes. For the year ended March 31, 2011, a \$10 million loss (2010— nil) was recognized in finance charges with respect to foreign currency contracts for U.S. short-term borrowings. These economic hedges offset \$10 million of foreign exchange revaluation gains recorded with respect to U.S. short-term borrowings. A net loss of \$58 million (2010—\$94 million) was recorded in trade revenue for the year ended March 31, 2011 with respect to commodity derivatives.

CREDIT RISK

DOMESTIC ELECTRICITY RECEIVABLES

A customer application and a credit check are required prior to initiation of services. For customers with no BC Hydro credit history, call centre agents ensure accounts are secured either by a credit bureau check, a cash security deposit, or a credit reference letter.

The value of domestic and trade accounts receivable by age and the related provision for doubtful accounts are presented in the following tables.

DOMESTIC AND TRADE ACCOUNTS RECEIVABLE NET OF ALLOWANCE FOR DOUBTFUL ACCOUNTS

	2011	2010
(in millions)	\$ 412	\$ 428
Current	21	18
Past due (30–59 days)	5	5
Past due (60–89 days)	4	3
Past due (more than 90 days)	442	454
	(9)	(9)
Allowance for doubtful accounts	\$ 433	\$ 445
Total		

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At the end of each reporting period a review of the provision for doubtful accounts is performed. It is an assessment of the potential amount of domestic and trade accounts receivable which will not be paid by customers after the balance sheet date. The assessment is made by reference to age, status and risk of each receivable, current economic conditions, and historical information. There was no change in the allowance for doubtful accounts during the year.

FINANCIAL ASSETS ARISING FROM BC HYDRO'S TRADING ACTIVITIES

A substantial majority of BC Hydro's counterparties associated with its trading activities are in the energy sector. This industry concentration has the potential to impact the Company's overall exposure to credit risk in that the counterparties may be similarly affected by changes in economic, regulatory, political, and other factors. The Company manages credit risk by authorizing trading transactions within the guidelines of the Company's risk management policies, by monitoring the credit risk exposure and credit standing of counterparties on a regular basis, and by obtaining credit assurances from counterparties to which they are entitled under contract.

The Company regularly uses standard master netting agreements that allow for netting of exposures and often include margining provisions. In addition, the Company has credit loss insurance that covers most credit exposure associated with transactions that are delivered in the United States.

With respect to these financial assets, BC Hydro assigns credit limits for counterparties based on evaluations of their financial condition, net worth, regulatory environment, cost recovery mechanisms, credit ratings, and other credit criteria as deemed appropriate. Credit limits and credit quality are monitored periodically and a detailed credit analysis is performed at least annually. Further, BC Hydro has tied a portion of its contracts to master agreements that require security in the form of cash or letters of credit if current net receivables and replacement cost exposure exceed contractually specified limits. The following table outlines the distribution, by credit rating, of financial assets that are neither past due nor impaired:

	Investment Grade	Unrated	Non-Investment Grade	Total
<i>As at March 31, 2011</i>	%	%	%	%
Accounts receivable	54	42	4	100
Derivative commodity assets	69	31	0	100

	Investment Grade	Unrated	Non-Investment Grade	Total
<i>As at March 31, 2010</i>	%	%	%	%
Accounts receivable	86	13	1	100
Derivative commodity assets	97	3	0	100

The outstanding amount of collateral received from customers at March 31, 2011 was nil (2010—\$30 million).

LIQUIDITY RISK

The following table details remaining contractual maturities at March 31, 2011 of BC Hydro's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows. Interest payments have been computed using contractual rates or, if floating, based on rates current at March 31, 2011. In respect of the cash flows in U.S. dollars, the exchange rate as at March 31, 2011 has been used.

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	Carrying Value	Fiscal 2012	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016	Fiscal 2017 and thereafter
<i>(in millions)</i>							
Non-Derivative Financial Liabilities							
Total trade and other payables							
(excluding interest accruals)	\$ 1,368	\$ (1,368)	\$ —	\$ —	\$ —	\$ —	\$ —
Bank overdrafts	5	(5)	—	—	—	—	—
Long-term debt							
(including interest payments)	11,786	(3,348)	(723)	(1,189)	(784)	(600)	(12,445)
Lease obligations	437	(79)	(78)	(78)	(78)	(77)	(1,172)
Other long-term liabilities	63	(4)	(4)	(4)	(4)	(4)	(165)
		(4,804)	(805)	(1,271)	(866)	(681)	(13,782)
Derivative Financial Liabilities							
Interest rate swaps used for hedging	17	(9)	(8)	(3)	—	—	—
Cross currency swaps used for hedging	100						
Cash outflow		(5)	(7)	(294)	—	—	—
Cash inflow		1	2	196	—	—	—
Forward foreign exchange contracts used for hedging	74						
Cash outflow		—	—	—	—	—	(923)
Cash inflow		—	—	—	—	—	751
Other forward foreign exchange contracts designated at fair value	4						
Cash outflow		(124)	—	—	—	—	—
Cash inflow		120	—	—	—	—	—
Financially settled commodity derivative liabilities designated at fair value	104	(126)	(9)	(8)	—	—	—
Physically settled commodity derivative liabilities designated at fair value	71	52	6	—	—	—	—
		(91)	(16)	(109)	—	—	(172)
Total		(4,895)	(821)	(1,380)	(866)	(681)	(13,954)
Derivative Financial Assets							
Financially settled commodity derivative assets designated at fair value	(128)	118	7	3	1	—	—
Physically settled commodity derivative assets designated at fair value	(59)	48	11	5	3	4	18
Net Total ¹		\$ (4,729)	\$ (803)	\$ (1,372)	\$ (862)	\$ (677)	\$ (13,936)

¹ BC Hydro believes that the liquidity risk associated with commodity derivative financial liabilities needs to be considered in conjunction with the profile of payments or receipts arising from commodity derivative financial assets. It should be noted that cash flows associated with future energy sales and commodity contracts which are not considered financial instruments under Section 3855 are not included in this analysis, which is prepared in accordance with Section 3862.

MARKET RISKS

(a) Currency Risk

Sensitivity Analysis

A \$0.01 strengthening or weakening of the U.S. dollar against the Canadian dollar at March 31, 2011 would have no impact on net income and would have no material impact on other comprehensive income. The regulatory account that captures all variances from forecasted finance charges as described in Note 4 eliminates any impact on net income. This analysis assumes that all other variables, in particular interest rates, remain constant.

This sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at March 31, 2011 and had been applied to each of BC Hydro's exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables remain constant. The stated change represents management's assessment of reasonably possible changes in foreign exchange rates over the period until the next quarter end balance sheet date.

(b) Interest Rate Risk

Fair value sensitivity analysis for fixed rate non-derivative instruments

BC Hydro does not account for any fixed rate financial assets or liabilities as held-for-trading or available-for-sale. Therefore a change in interest rates at March 31, 2011 would not affect net income or other comprehensive income with respect to these fixed rate instruments.

Sensitivity analysis for variable rate non-derivative instruments and derivative instruments

An increase or decrease of 100-basis points in interest rates at March 31, 2011 would have no impact on net income and would have no material impact on other comprehensive income. The Finance Charges regulatory account that captures all variances from forecasted finance charges as described in Note 4 eliminates any impact on net income. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

This sensitivity analysis has been determined assuming that the change in interest rates had occurred at March 31, 2011 and had been applied to each of BC Hydro's exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables remain constant. The stated change represents management's assessment of reasonably possible changes in interest rates over the period until the next quarter end balance sheet date.

(c) Commodity Price Risk

Sensitivity Analysis

Commodity price risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in commodity prices.

BC Hydro's subsidiary Powerex trades and delivers energy and associated products and services throughout North America. As a result, BC Hydro has exposure to movements in commodity prices for commodities Powerex trades, including electricity, natural gas and associated derivative products. Prices for these commodities fluctuate in response to changes in supply and demand, market uncertainty, and other factors beyond BC Hydro's control.

BC Hydro manages these exposures through its Board-approved risk management policies, which limit components of and overall market risk exposures, pre-define approved products and mandate regular reporting of exposures.

BC Hydro's risk management policy for trading activities defines various limits and controls, including Value at Risk ("VaR") limits, mark-to-market limits, and various transaction specific limits which are monitored on a daily basis. VaR estimates the pre-tax forward trading loss that could result from changes in commodity prices, with a specific level of confidence, over a specific time period. Powerex uses an industry standard Monte Carlo VaR model to determine the potential change in value of its forward trading portfolio over a 10-day holding period, within a 95 per cent confidence level, resulting from normal market fluctuations.

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VaR as an estimate of price risk has several limitations. The VaR model uses historical information to determine potential future volatility, assuming that price movements in the past will be indicative of future price movements. It cannot forecast unusual events such as extreme price movements. In addition, it is sometimes difficult to appropriately estimate the VaR associated with illiquid or non-standard products. As a result, Powerex uses additional measures to supplement the use of VaR to estimate price risk. These include the use of a Historic VaR methodology, stress tests, and notional limits for illiquid or emerging products.

Powerex's VaR, calculated under this methodology, was approximately \$13 million at March 31, 2011 (2010—\$7 million).

NOTE 13: OTHER LONG-TERM LIABILITIES

<i>(in millions)</i>	<i>(Revised)</i>	
	2011	2010
Environmental liabilities	\$ 237	\$ 329
Accrued pension benefit liability (Note 14)	99	87
Accrued other benefit plan liability (Note 14)	246	211
First Nations liabilities	303	308
Deferred revenue	411	389
Asset retirement obligations	44	58
Lease obligations and other provisions	441	—
Total	\$ 1,781	\$ 1,382

ENVIRONMENTAL LIABILITIES AND ASSET RETIREMENT OBLIGATIONS

In fiscal 2010, BC Hydro recorded a liability for the estimated future expenditures associated with the removal and destruction of PCB-contaminated insulating oils and related electrical equipment and for the assessment and remediation of chemically-contaminated lands. The Company's recorded liability is based on management's best estimate of the present value of the future expenditures expected to be required to comply with existing regulations.

There are uncertainties in estimating future environmental costs due to potential external events such as changes in legislation or regulations and advances in remediation technologies. All factors used in estimating the Company's environmental liabilities represent management's best estimates of the present value cost required to meet existing legislation or regulations. However, it is reasonably possible that numbers or volumes of contaminated assets, cost estimates to perform work, inflation assumptions and the assumed pattern of annual cash flows may differ significantly from the Company's current assumptions. In addition, for the PCB program, the availability of critical resources such as skilled labour and replacement assets and the ability to take maintenance outages in critical facilities may influence the timing of expenditures. Estimated environmental liabilities are reviewed annually or more frequently if significant changes in regulation or other relevant factors occur. Estimate changes are accounted for prospectively.

In determining the amounts to be recorded as environmental liabilities, the Company estimates the current cost of completing required work and makes assumptions as to when the future expenditures will actually be incurred, in order to generate future cash flow information. A long-term inflation assumption of approximately 2 per cent has been used to express these current cost estimates as estimated future expenditures. Future environmental expenditures have been discounted using factors ranging from 2.0 per cent to 4.7 per cent, depending on the appropriate rate for the period when increases in the obligations were first recorded.

Management's best estimate of the total undiscounted estimated future expenditures to comply with PCB regulations is approximately \$361 million. These expenditures are expected to be incurred over the period from 2012 to 2045. As a result of its most recent cost estimate to comply with existing PCB regulations, the Company reduced its March 31, 2011 PCB environmental liability by approximately \$94 million. As described in Note 4, BC Hydro has offset this provision with a regulatory account.

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DEFERRED REVENUE

Deferred revenue consists principally of amounts received under the agreement relating to the Skagit River, Ross Lake, and the Seven Mile Reservoir on the Pend d'Oreille River. Under the agreement BC Hydro has committed to deliver a pre-determined amount of electricity each year to the City of Seattle for an 80-year period ending in fiscal 2066 in return for two annual payments of approximately US\$22 million per year for 35 years ending in 2021 and US\$100,000 (adjusted for inflation) per year for the 80-year period.

The amounts received under the Skagit River Agreement are deferred and included in income on an annuity basis over the electricity delivery period ending in fiscal 2066.

LEASE OBLIGATIONS AND OTHER PROVISIONS

The capital lease obligations are related to long-term energy purchase agreements. The present value of the lease obligations were discounted at rates ranging from 4.47 per cent to 4.60 per cent with contract terms ranging from 11 to 25 years. Interest of \$8.8 million relating to capital lease obligations has been included in finance charges. Minimum lease payments over the lease terms are as follows:

<i>(in millions)</i>	2011
2012	\$ 79
2013	78
2014	78
2015	78
2016	77
Later years, through F2022	1,172
Total minimum lease payments	1,562
Less: estimated executory costs	848
Net minimum capital lease payments	714
Less: amount representing interests	253
Present value of net minimum capital lease payments	461
Less: current portion of obligations under capital leases, included in accounts payable and accrued liabilities	24
Total long-term portion of obligations under capital leases	\$ 437

NOTE 14: EMPLOYEE FUTURE BENEFIT PLANS

BC Hydro provides a defined benefit statutory pension plan to substantially all employees, as well as supplemental arrangements which fund the pension benefits earned in excess of the maximum pension benefits provided by the defined benefit statutory pension plan. Pension benefits are based on years of membership service and highest five-year average pensionable earnings. Annual cost-of-living increases are provided to pensioners to the extent that funds are available in the indexing fund. Employees make basic and indexing contributions to the plan funds based on a percentage of current pensionable earnings. BC Hydro contributes amounts as prescribed by an independent actuary. BC Hydro is responsible for ensuring that the statutory pension plan has sufficient assets to pay the pension benefits upon retirement of employees. The supplemental arrangements are unfunded. The most recent actuarial funding valuation for the statutory pension plan was performed at December 31, 2009. The next valuation for funding purposes will be prepared as at December 31, 2012.

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BC Hydro also provides post-retirement benefits other than pensions including medical, extended health and life insurance coverage for retirees who have at least 10 years of service and qualify to receive pension benefits. Certain benefits, including the short-term continuation of health care and life insurance, are provided to terminated employees or to survivors on the death of an employee. These other post-retirement benefits and post-employment benefits are not funded. Post-employment benefits include the pay-out of benefits that vest or accumulate, such as banked vacation.

The BCTC Registered Pension Plan was integrated with the BC Hydro Pension Plan effective July 5, 2010 (see Note 19). The provisions of the BC Hydro Pension Plan and the BCTC Pension Plan were substantially the same. On July 5, 2010, the actuarial present value of the accrued pension benefit liability of the BCTC Pension Plan of \$76.6 million, was assumed by the BC Hydro Pension Plan and its assets, totaling \$72.5 million, were transferred to the BC Hydro Pension Plan at fair market values.

Information about the benefit plans, post-retirement benefits and post-employment benefits other than pensions is as follows:

(a) The net expense for BC Hydro's benefit plans is as follows:

	Pension Benefit Plans		Other Benefit Plans	
<i>(in millions)</i>	2011	2010	2011	2010
Net expense	\$ 83	\$ 73	\$ 31	\$ 24

(b) Information about BC Hydro's benefit plans as at March 31, in aggregate, is as follows:

	Pension Benefit Plans		Other Benefit Plans	
<i>(in millions)</i>	2011	2010	2011	2010
Accrued benefit obligation	\$ 3,027	\$ 2,538	\$ 285	\$ 238
Fair value of plan assets	2,431	2,174	—	—
Plan deficit	\$ (596)	\$ (364)	\$ (285)	\$ (238)
Unamortized net actuarial losses	805	616	33	14
Unamortized past service costs	3	4	—	—
Unamortized transition (asset) liability	(15)	(30)	6	13
Accrued benefit asset (liability)	\$ 197	\$ 226	\$ (246)	\$ (211)

Represented by:

	2011	2010	2011	2010
Accrued benefit asset	\$ 296	\$ 313	\$ —	\$ —
Accrued benefit liability	(99)	(87)	(246)	(211)
	\$ 197	\$ 226	\$ (246)	\$ (211)

The net accrued benefit liability is included in Other Long-Term Liabilities (Note 13).

The pension plan assets and obligations are measured as at December 31, 2010. The other benefit plan obligations are measured as at March 31, 2011. No valuation allowance was required in either fiscal 2011 or fiscal 2010. No benefit plans were fully funded in either fiscal 2011 or 2010.

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(c) The significant assumptions adopted in measuring BC Hydro's accrued benefit obligations are as follows:

	Pension Benefit Plans		Other Benefit Plans	
<i>(in millions)</i>	2011	2010	2011	2010
Discount rate				
Benefit cost	6.14%	7.35%	5.69%	7.70%
Accrued benefit obligation	5.31%	6.14%	5.35%	5.69%
Expected long-term rate of return on plan assets	7.3%	7.3%	n/a	n/a
Rate of compensation increase				
Benefit cost	3.7%	3.8%	n/a	n/a
Accrued benefit obligation	3.7%	3.7%	n/a	n/a
Health care cost trend rates				
Weighted average health care cost trend rate	n/a	n/a	5.7%	5.9%
Weighted average ultimate health care cost trend rate	n/a	n/a	3.9%	3.8%
Year ultimate health care cost trend rate will be achieved	n/a	n/a	2015	2013

(d) Other information about BC Hydro's benefit plans is as follows:

	Pension Benefit Plans		Other Benefit Plans	
<i>(in millions)</i>	2011	2010	2011	2010
Employer contributions	\$ 44	\$ 40	\$ —	\$ —
Employee contributions	\$ 26	\$ 24	\$ —	\$ —
Benefits paid	\$ 135	\$ 134	\$ 11	\$ 10
Settlement payments	\$ 10	\$ 11	\$ —	\$ —

(e) Asset allocation of the defined benefit statutory pension plan as at the measurement date:

	Target Allocation	2011	2010
Equities	60%	63%	61%
Fixed income investments	30%	28%	30%
Real estate	10%	9%	9%

Plan assets are re-balanced within ranges around target applications. The expected return on plan assets is determined by considering long-term historical returns, future estimates of long-term investment returns and asset allocations.

NOTE 15: OTHER COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME

OTHER COMPREHENSIVE INCOME

<i>(in millions)</i>	2011	2010
Other Comprehensive Income		
Unrealized loss on derivatives designated as cash flow hedges	\$ (24)	\$ (150)
Reclassification to income on derivatives designated as cash flow hedges	44	245
Other Comprehensive Income	\$ 20	\$ 95

Comprehensive income consists of net income and other comprehensive income (OCI). OCI represents the changes in shareholder's equity during a period arising from transactions and changes in the fair value of available for sale securities and the effective portion of cash flow hedging instruments. Amounts are recorded in OCI until the criteria for recognition in the consolidated statement of operations are met.

ACCUMULATED OTHER COMPREHENSIVE INCOME

<i>(in millions)</i>	2011	2010
Accumulated other comprehensive income (loss), beginning of year	\$ 53	\$ (42)
Other comprehensive income for the year	20	95
Accumulated Other Comprehensive Income, End of Year	\$ 73	\$ 53

NOTE 16: COMMITMENTS AND CONTINGENCIES

ENERGY COMMITMENTS

BC Hydro (excluding Powerex) has long-term energy purchase agreements to meet a portion of its expected future domestic electricity requirements. The expected obligations to purchase energy under these agreements have a total value of approximately \$42,976 million of which approximately \$1,310 million relates to the purchase of natural gas and natural gas transportation agreements, at market prices over 30 years. The remaining commitments are at predetermined prices. Included in the total value of the long-term energy purchase agreements are \$714 million accounted for as obligations under capital leases. Powerex has energy purchase commitments with an estimated minimum payment obligation of \$2,968 million extending to 2024.

The total combined payments for the next five years are approximately (in millions): 2012—\$1,497; 2013—\$1,310; 2014—\$1,484; 2015—\$1,461; 2016—\$1,444.

Powerex has energy sales commitments over the next five years with a total estimated value of \$1,008 million.

LEASE AND SERVICE AGREEMENTS

BC Hydro has entered into various agreements to lease facilities or assets, or to purchase business support services. The agreements cover periods of up to 10 years, and the aggregate minimum payments are approximately \$275 million. Payments for the next five years are approximately (in millions): 2012—\$121; 2013 —\$118; 2014—\$11; 2015—\$7; 2016—\$6.

LEGAL CONTINGENCIES

a) Since 2000, Powerex has been named, along with other energy providers, in lawsuits and U.S. federal regulatory proceedings which seek damages and/or contract rescissions based on allegations that, during part of 2000 and 2001, the California wholesale electricity markets were unlawfully manipulated and energy prices were not just and reasonable. Powerex has obtained dismissals of all but one of the lawsuits. In the remaining lawsuit, the California Department of Water Resources (CDWR) has claimed that it was forced under duress to enter into numerous transactions with Powerex in 2001. Powerex has obtained an indefinite stay of this remaining lawsuit pending resolution of related proceedings before the Federal Energy Regulatory Commission (FERC).

FERC has approved a settlement agreement between FERC staff and Powerex that acknowledged that there was no evidence that Powerex engaged in any gaming or other improper practices with any other market participants, and further noted that Powerex was a valuable and reliable supplier to the California market throughout the energy crisis. FERC's approval of this settlement is currently being challenged by various California parties. If the challenges are unsuccessful, FERC's determination that Powerex did not engage in market manipulation will stand and could provide Powerex with additional defences in the remaining litigation and other FERC proceedings.

FERC decided earlier in the proceedings that certain market-wide refunds will have to be paid by energy providers to various California parties. The precise amount has not been determined and the timing of the refunds is unknown. In addition, FERC will hold an inquiry to reconsider additional refunds based on allegations of seller market manipulation during the summer of 2000. CDWR transactions will be included in these latter inquiries.

A FERC trial judge has determined that in the event Powerex and other energy providers improperly reported transactional data to FERC in 2000 and 2001, those reports did not hide an accumulation of market power which resulted in unreasonably high energy prices. If the FERC Commission issues a final order upholding the trial judge's initial decision it is expected that the California Parties will commence appeal proceedings.

At March 31, 2011, Powerex was owed US \$265 million (CDN \$258 million) by the California Power Exchange and the California Independent System Operator related to Powerex's trade activities in California during the period covered by the lawsuits. It is expected those receivables will be offset against any refunds that Powerex is required to pay.

Due to the ongoing nature of the regulatory and legal proceedings against Powerex, management cannot predict the outcomes of the claims against Powerex. Powerex has recorded provisions for uncollectible amounts and legal costs associated with the California energy crisis. These provisions are based on management's best estimates, and are intended to adequately provide for any exposure. However, the amounts that are ultimately collected or paid may differ from management's current estimates. Management has not disclosed the provision amounts or ranges of expected outcomes due to the potentially adverse effect on the process.

b) Facilities and Rights of Way: BC Hydro is subject to existing and pending legal claims relating to alleged infringement and damages in the operation and use of facilities owned by BC Hydro. These claims may be resolved unfavourably with respect to BC Hydro and may have a significant adverse effect on BC Hydro's financial position. For existing claims in respect of which settlement negotiations have advanced to the extent that potential settlement amounts can reasonably be predicted, management has recorded a provision for the potential costs of those settlements. For pending claims, management believes that any loss exposure that may ultimately be incurred may differ materially from management's current estimates. Management has not disclosed the ranges of expected outcomes due to the potentially adverse effect on the negotiation process for these pending claims.

c) Due to the size, complexity and nature of BC Hydro's operations, various other legal matters are pending. It is not possible at this time to predict with any certainty the outcome of such litigation. Management believes that any settlements related to these matters will not have a material effect on BC Hydro's consolidated financial position or results of operations.

d) BC Hydro and its subsidiaries have outstanding letters of credit, related primarily to Powerex trading activities. At March 31, 2011, the letters of credit outstanding total CDN \$99 million (2010—CDN \$62 million) and US \$108 million (2010—US \$94 million).

NOTE 17: GEOGRAPHIC INFORMATION

Revenues, based on location of the customer, are as follows:

<i>(in millions)</i>	2011	2010
British Columbia	\$ 3,408	\$ 3,157
Canada (excluding British Columbia)	205	171
United States	368	549
Transfers to Regulatory Deferral Accounts	35	151
Total	\$ 4,016	\$ 4,028

Substantially all of BC Hydro's assets are located in the Province of British Columbia. Energy sales outside of British Columbia are carried out by Powerex, a wholly owned subsidiary of BC Hydro.

NOTE 18: RELATED PARTY TRANSACTIONS

As Crown Corporations of the Province, BC Hydro, Columbia Power Corporation and the Province are considered related parties. All transactions between BC Hydro and its related parties are considered to have commercial substance and are consequently recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The related party transactions and balances are summarized below:

<i>(in millions)</i>	2011	2010
Province of BC		
Accounts receivable	\$ 105	\$ 93
Accounts payable	514	114
Water rental fees	298	312
Cost of energy sales	131	167
Taxes	120	111
Finance charges	435	419
Payment to the Province	463	47
Columbia Power Corporation		
Cost of energy sales	47	48

BC Hydro's debt is either held or guaranteed by the Province (see Note 11). Under an agreement with the Province, BC Hydro indemnifies the Province for any credit losses incurred by the Province related to interest rate and foreign currency contracts entered into by the Province on BC Hydro's behalf. At March 31, 2011, the aggregate exposure under this indemnity totaled approximately \$43 million (2010—\$58 million). BC Hydro has not experienced any losses to date under this indemnity.

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NOTE 19: INTEGRATION OF BCTC

On June 3, 2010, the Province enacted the *Clean Energy Act* (the Act) in the B.C. Legislature. The Act sets the foundation for a new future of electricity self-sufficiency powered by investments in clean, renewable energy across the province. The Act required the integration of BC Hydro and BCTC into a single organization with one board of directors and executive, and the transfer of all BCTC assets, liabilities and employees to BC Hydro, effective July 5, 2010.

BC Hydro has accounted for the merger of BCTC on a continuity-of-interests basis as there is no substantive change in the ownership of BCTC arising from the transaction. The following assets and liabilities of BCTC were transferred to BC Hydro at their net book values on July 5, 2010:

(in millions)

Assets		
Current assets	\$	13
Property, plant and equipment		107
Intangible assets		28
Regulatory assets		25
Other assets		2
Total Assets	\$	175
Liabilities		
Current liabilities	\$	25
Long-term debt		70
Other non-current liabilities		20
Contributed surplus		60
Total Liabilities & Equity	\$	175

In transferring its ownership interest in BCTC to BC Hydro, the Province's contribution has been included in contributed surplus.

FINANCIAL AND OPERATING STATISTICS

FINANCIAL STATISTICS

<i>for the years ended or as at March 31 (millions of dollars)</i>	2011	2010	2009	2008	2007
Revenues	\$ 4,016	\$ 4,028	\$ 4,269	\$ 4,210	\$ 4,192
Expenses					
Energy costs	1,415	1,621	2,393	2,057	2,117
Operating costs ¹	860	795	915	942	716
Amortization	533	487	395	368	378
Taxes	184	178	167	153	149
Finance charges	435	500	472	463	453
	3,427	3,581	4,342	3,983	3,813
Income Before Regulatory Account Transfers	589	447	(73)	227	379
Regulatory Transfers ²	—	—	438	142	28
Net Income	\$ 589	\$ 447	\$ 365	\$ 369	\$ 407
Property, Plant and Equipment & Intangible Assets					
At cost	\$ 23,334	\$ 21,300	\$ 19,418	\$ 18,262	\$ 17,161
Less: Accumulated depreciation	7,788	7,305	7,319	7,108	6,735
Net Book Value	\$ 15,546	\$ 13,995	\$ 12,099	\$ 11,154	\$ 10,426
Property, Plant & Equipment and Intangible Asset Additions					
Sustaining	\$ 865	\$ 948	\$ 664	\$ 557	\$ 428
Expansion	654	1,458	733	519	379
Total property, plant & equipment and intangible asset additions ³	1,519	2,406	1,397	1,076	807
Less: Contributions in aid of construction	70	101	97	100	85
Net Property, Plant & Equipment and Intangible Asset Additions	\$ 1,449	\$ 2,305	\$ 1,300	\$ 976	\$ 722
Net Long-Term Debt ⁴	\$ 11,520	\$ 10,696	\$ 9,135	\$ 7,519	\$ 6,916

¹ Personnel, materials & external services, capitalized costs and other costs.

² In F2011, BC Hydro changed its presentation of the impact of regulation on its statement of operations. Regulatory Transfers were previously a single line item whereas in the current period they are netted against the corresponding expense or revenue line item. F2010 is restated to conform to the current presentation.

³ Total property, plant and equipment and intangible asset expenditures include non-cash items.

⁴ Consists of long-term debt, including the current portion, net of sinking funds and cash and cash equivalents.

KEY FINANCIAL AND OPERATING COMPARATIVES

Financial Comparatives*(millions of dollars unless otherwise stated)*

	2011	2010	2009	2008	2007
Revenues	\$ 4,016	\$ 4,028	\$ 4,269	\$ 4,210	\$ 4,192
Net income	\$ 589	\$ 447	\$ 365	\$ 369	\$ 407
Property, Plant & Equipment and Intangibles	\$ 15,546	\$ 13,995	\$ 12,099	\$ 11,154	\$ 10,426
Net long-term debt ¹	\$ 11,520	\$ 10,696	\$ 9,135	\$ 7,519	\$ 6,916
Retained earnings	\$ 2,747	\$ 2,621	\$ 2,221	\$ 1,865	\$ 1,783
Property, Plant & Equipment and Intangible Additions	\$ 1,519	\$ 2,406	\$ 1,397	\$ 1,076	\$ 807
Debt to equity ratio	80 : 20	80 : 20	81 : 19	70 : 30	70 : 30
Return on equity (%)	14.13	12.49	11.75	11.33	13.44
Interest coverage	2.05	1.96	1.72	1.49	1.84

Operating Comparatives

Number of customers	1,853,406	1,830,985	1,801,328	1,767,194	1,736,987
Generating capacity (MW):					
Hydroelectric	10,923	10,259	10,242	10,237	10,232
Thermal	1,096	1,086	1,088	1,089	1,091
Peak one-hour demand (MW)	9,790	9,847	10,010	9,548	10,113
Average annual kWh use per residential customer	10,818	10,857	11,258	11,290	10,906
Average number of customers per employee	317	311	305	338	373
Domestic sales (GWh)	50,607	50,233	52,512	53,300	52,911
Trade sales (GWh)	49,615	48,842	50,799	51,815	41,336
Total electricity sold per employee (GWh)	13.24	13.43	14.55	17.66	18.70

¹ Consists of long-term debt, including the current portion, net of sinking funds and cash and cash equivalents.

OPERATING STATISTICS

<i>for the years ended or as at March 31</i>	2011	2010	2009	2008	2007
Generating Capacity (megawatts)					
Hydroelectric ¹	10,923	10,259	10,242	10,237	10,232
Thermal	1,096	1,086	1,088	1,089	1,091
Total	12,019	11,345	11,330	11,326	11,323
Peak One-Hour Demand					
Integrated System (megawatts)	9,790	9,847	10,010	9,548	10,113
Customers					
Residential	1,654,079	1,633,558	1,606,156	1,568,508	1,540,176
Light industrial and commercial	195,402	193,522	191,286	194,861	193,070
Large industrial	166	163	162	160	146
Other	3,490	3,455	3,434	3,408	3,349
Trade	269	287	290	257	246
Total	1,853,406	1,830,985	1,801,328	1,767,194	1,736,987
Electricity Sold (gigawatt-hours)					
Residential	17,797	17,593	17,861	17,553	16,651
Light industrial and commercial	18,052	17,811	18,265	18,406	18,268
Large industrial	13,164	13,020	14,303	15,380	15,989
Other	1,594	1,809	2,083	1,961	2,003
Domestic	50,607	50,233	52,512	53,300	52,911
Trade	49,615	48,842	50,799	51,815	41,336
Total	100,222	99,075	103,311	105,115	94,247
Domestic Change Over Previous Year (%)	0.7	(4.3)	(1.5)	0.7	0.9
Revenues (millions)					
Residential	\$ 1,366	\$ 1,272	\$ 1,197	\$ 1,171	\$ 1,070
Light industrial and commercial	1,243	1,192	1,054	1,054	1,025
Large industrial	590	590	481	536	556
Other energy sales	239	235	82	183	135
Domestic	3,438	3,289	2,814	2,944	2,786
Trade	578	739	1,455	1,266	1,406
Total	\$ 4,016	\$ 4,028	\$ 4,269	\$ 4,210	\$ 4,192

OPERATING STATISTICS

(CONTINUED)

for the years ended or as at March 31	2011	2010	2009	2008	2007
Average Revenue (per kilowatt-hour)					
Residential	7.7 ¢	7.2 ¢	6.7 ¢	6.7 ¢	6.4 ¢
Light industrial and commercial	6.9	6.7	5.8	5.7	5.6
Large industrial	4.5	4.5	3.4	3.5	3.5
Other	15.0	13.0	3.9	9.3	6.7
Trade ²	4.0	4.4	6.6	6.5	6.5
Average Annual Kilowatt-Hour					
Use Per Residential Customer	10,818	10,857	11,258	11,290	10,906
Lines In Service					
Distribution (kilometres)	57,648	57,278	56,780	56,297	55,705
Transmission (circuit kilometres)	18,764	18,603	18,531	18,531	18,336
Full Time Equivalent (FTE)³	5,805 ⁴	5,687 ⁵	5,417	4,677	4,163

¹ Maximum sustained generating capacity.² The method used to calculate the trade revenue per kilowatt hour is based on gross trade revenues.³ Regular FTEs (the productive hours of work for one employee) for BC Hydro, excluding subsidiaries.⁴ In F2011, BCTC was integrated into BC Hydro and this number reflects the combined organization.⁵ The 2007-2010 numbers have been restated for consistency with FTE methodology, and they were previously reported as Headcount.

OPERATING SEGMENT INFORMATION

TOTAL REQUIREMENTS FOR ELECTRICITY AND SOURCES OF SUPPLY

for the years ended March 31

	2011			2010			2009			2008			2007		
	Generating Capacity (Megawatts)	Gigawatt-Hours	%	Generating Capacity (Megawatts)	Gigawatt-Hours	%	Generating Capacity (Megawatts)	Gigawatt-Hours	%	Generating Capacity (Megawatts)	Gigawatt-Hours	%	Generating Capacity (Megawatts)	Gigawatt-Hours	%
Requirements															
Domestic	12,019	50,607	62.0	11,345	50,233	60.3	11,330	52,512	58.0	11,326	53,300	55.3	11,323	52,911	57.8
Electricity trade		26,253	32.2		28,210	33.9		32,504	36.0		37,450	38.8		33,372	36.4
		76,860	94.2		78,443	94.2		85,016	94.0		90,750	94.1		86,283	94.2
Line loss and system use		4,701	5.8		4,840	5.8		5,391	6.0		5,677	5.9		5,329	5.8
	81,561	100.0		83,283	100.0		90,407	100.0		96,427	100.0		91,612	100.0	
Sources of Supply															
Hydroelectric generation															
Gordon M. Shrum	2,730	10,015	12.3	2,730	14,756	17.7	2,730	15,287	17.0	2,730	16,477	17.1	2,730	12,470	13.6
Revelstoke	2,480	7,155	8.8	1,980	7,061	8.5	1,980	6,955	7.7	1,980	9,496	9.8	1,980	7,740	8.4
Mica	1,805	6,294	7.7	1,805	6,549	7.9	1,805	5,695	6.3	1,805	8,562	8.9	1,805	7,036	7.7
Kootenay Canal	583	2,924	3.6	583	2,255	2.7	583	2,507	2.8	583	3,083	3.2	580	3,286	3.6
Peace Canyon	694	2,591	3.2	694	3,709	4.4	694	3,801	4.2	694	4,054	4.2	694	3,054	3.3
Seven Mile	805	3,210	3.9	805	2,870	3.4	805	3,306	3.7	805	2,880	3.0	805	3,573	3.9
Bridge River	478	2,631	3.2	478	1,948	2.3	478	2,360	2.6	478	2,793	2.9	476	2,609	2.8
Other	1,348	4,483	5.5	1,184	4,059	4.9	1,167	3,901	4.3	1,162	4,795	4.9	1,162	4,708	5.1
	10,923	39,303	48.2	10,259	43,207	51.8	10,242	43,812	48.6	10,237	52,140	54.0	10,232	44,476	48.5
Thermal generation															
Burrard	950	58	0.1	950	233	0.3	950	116	0.1	950	260	0.3	950	727	0.8
Other	146	193	0.2	136	315	0.4	138	347	0.4	139	353	0.4	141	333	0.4
Purchases under long-term commitments		15,295	18.8		13,403	16.1		12,359	13.6		11,878	12.3		10,306	11.2
Purchases under short-term commitments		26,340	32.3		27,217	32.7		33,237	36.7		32,281	33.5		35,360	38.6
Exchange net		372	0.4		(1,092)	(1.3)		536	0.6		(485)	(0.5)		410	0.4
	12,019	81,561	100.0	11,345	83,283	100.0	11,330	90,407	100.0	11,326	96,427	100.0	11,323	91,612	100.0

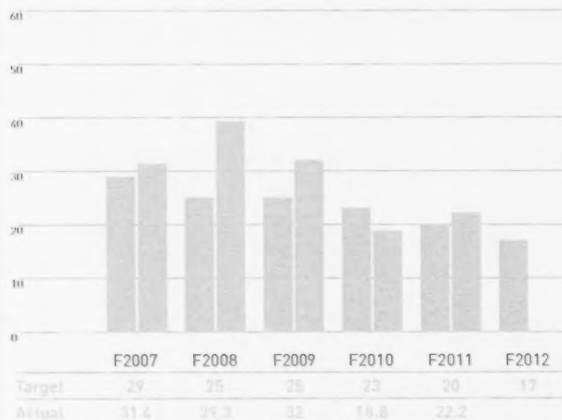
APPENDIX A

FISCAL 2011 PERFORMANCE OUTCOMES

SAFETY

SEVERITY RATE

Number of calendar days lost per 200,000 hours worked

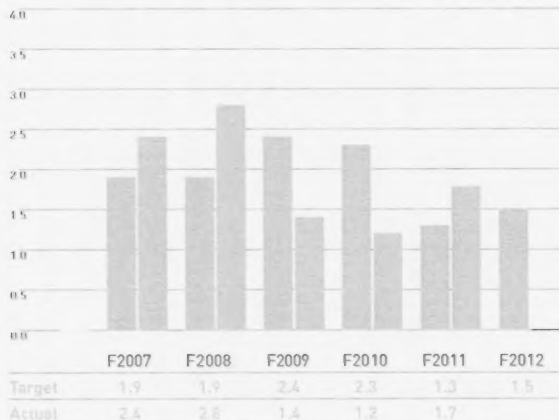


Severity is a standard Canadian Electricity Association (CEA) measure and is defined as the number of calendar days lost due to injury per 200,000 hours worked. One or two injuries can have a major impact on severity.

In order to address serious incidents, BC Hydro has continued to focus its safety efforts on ensuring hazards are identified and barriers provided, through the four pillars of the Corporate Safety Plan: Job Planning, Job Observation, Incident Investigation and Safety by Design.

ALL INJURY FREQUENCY

Number of injuries per 200,000 hours worked



All Injury Frequency (AIF) is also a standard Canadian Electricity Association (CEA) measure and is defined as the total number of employee Medical Aids and Disabling injuries occurring in the last 12 months per 200,000 hours worked. Medical Aid injuries are those where a medical practitioner has rendered services beyond the level defined as "first aid" and the employee has not been absent from work after the day of injury. Disabling injuries are those where the employee is absent beyond the day of injury.

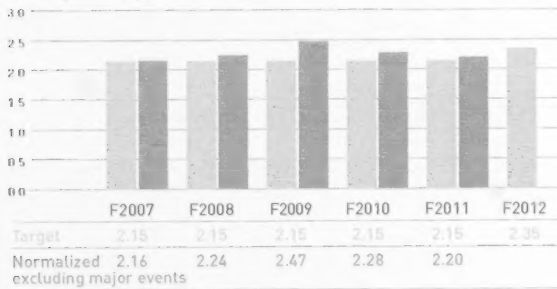
The present AIF level of 1.7 is higher than the AIF level of 1.2 achieved at the end of fiscal 2010. Performance in fiscal 2010 was unprecedented in terms of injury volume reduction. However, the AIF level of 1.7 is still lower than the most current CEA AIF composite rate, and lower than the industry average as reported by WorkSafeBC.

Both Severity and AIF metrics are, as defined in the CEA Standard, generally harmonized with the U.S. Occupational Safety and Health Administration (OSHA) Standards for safety statistics. Data is tracked through BC Hydro's internal Safety and Health Management Information System.

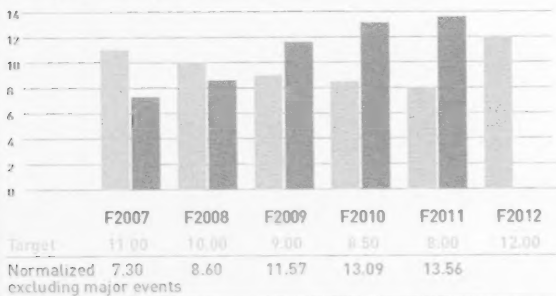
RELIABILITY (CUSTOMER)

RELIABILITY (CUSTOMER)**CAIDI (hours)**

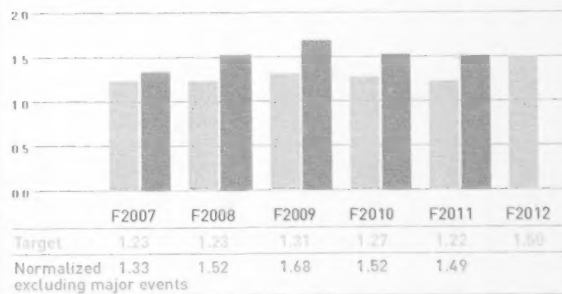
Average interruption in hours per interrupted customer—lower is better

**CEMI-4 (percentage)**

CEMI-4 is the percentage of customers experiencing four or more outages during a 12-month period—lower is better

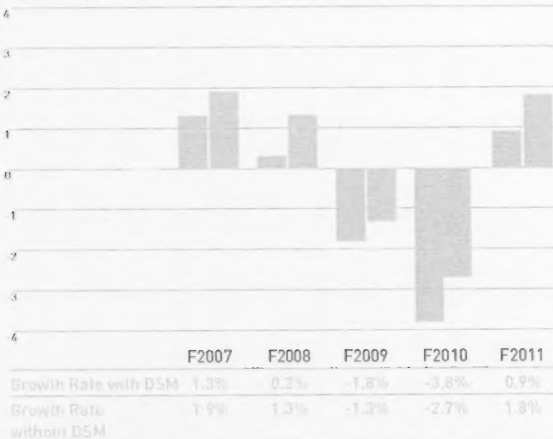
**SAIFI (frequency)**

SAIFI is a measure of how many sustained interruptions (longer than one minute) an average customer will experience over the course of a year—lower is better



Note: Our reliability targets are based on specific values, however, performance within 10 per cent is considered acceptable given the wide range of variations in weather patterns and other uncontrollable elements that can significantly disrupt the electrical system. BC Hydro measures reliability under normal circumstances, because major events are not predictable and largely uncontrollable. The reliability measure is therefore based on data that excludes major events.

Fiscal 2011 CAIDI at 2.20 per cent is within 10 per cent of plan while SAIFI and CEMI-4 are off plan. The poor SAIFI and CEMI-4 performance is mainly due to outages caused by trees, adverse weather and equipment failure. These three causes contributed to over 50 per cent of the total customer hours lost and over 40 per cent of customer interruptions. Tree outages alone contributed to over 30 per cent of the total customer hours lost and 20 per cent of the total customer interruptions. The good CAIDI performance is mainly due to faster outage restoration time compared to historical average.

DEMAND GROWTH (With and Without Demand-Side Management)
—percentage

The growth rate is calculated as the year-over-year change in domestic load. Between fiscal 2010 and fiscal 2011 all sectors grew contributing to the 0.9 per cent increase in total domestic sales. Over last year, commercial sales grew as economic conditions improved in B.C. In fiscal 2011, total industrial sales grew by about 1.0 per cent over last fiscal year while previously they had declined by about 10.0 per cent between fiscal 2009 and fiscal 2010. This year's growth was led by the forestry sector which had higher sales due to favourable prices.

Results for Demand Growth without DSM, published in prior year reports, may differ due to changes in BC Hydro's historical annual acquired energy savings.

CUSTOMER SATISFACTION

BILLING ACCURACY

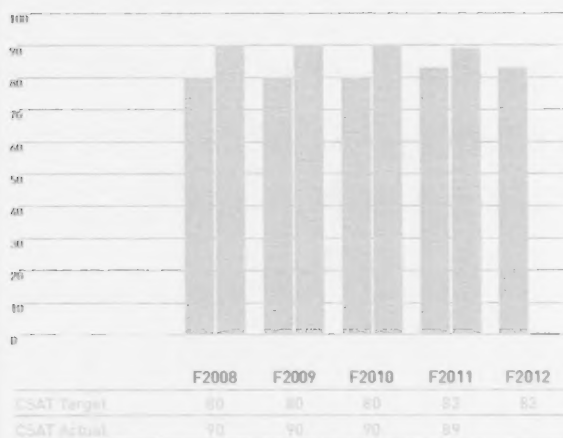
percentage—higher is better

	F2008	F2009	F2010	F2011	F2012
Target	NR	98.2	98.2	98.2	98.2
Actual	NR	98.5	98.5	98.5	

Billing accuracy is a core expectation of customers. We have therefore set our targets to deliver consistently high performance. For fiscal 2011, the Billing Accuracy target has continued to meet or surpass Service Level Agreement levels.

CUSTOMER SATISFACTION

percentage—higher is better



BC Hydro maintains a minimum threshold target of 83 per cent for Customer Satisfaction to ensure we have strong customer support. BC Hydro achieved an 89 per cent overall customer satisfaction rating for fiscal 2011.

FIRST CALL RESOLUTION

percentage—higher is better

	F2008	F2009	F2010	F2011	F2012
Target	NR	66	71	71	71
Actual	NR	75	74	73	

The First Call Resolution (FCR) measure assesses customer service operations as a whole in terms of accurate and timely information flow, agent capability and quality, and a satisfying customer experience at a transaction level. For fiscal 2011, FCR has continued to remain stable and above target.

CORPORATE/REGIONAL DONATIONS

	F2007	F2008	F2009	F2010	F2011
Amount Allocated	1,225	1,185	1,185	1,197	1,060
Dollars, in thousands					
Percentage Allocation					
Education	17	15	11	13	13
(Youth and Education)					
Environment	6	9	9	10	12
(Environmental Sustainability)					
United Way	6	6	1	1	1
Regional	39	42	42	42	38
Scholarships	10	7	8	12	14
Employees' Community	10	8	9	9	10
Services Fund					
Community Investment	11	19 ¹	21	14	13
and People and Leadership					

Corporate and Regional Donations are monetary grants, sponsorships or in-kind contributions provided by BC Hydro to registered charities or not-for-profit organizations to support cultural, social and economic well-being in communities around the province of British Columbia.

¹ For fiscal 2008 and 2009, the People and Leadership funding and Community Investment funding areas are reported together. After fiscal 2009, the funding area is called Community Leadership.

The drop in Education funding between fiscal 2008 and fiscal 2009 is due to moving one donation from Education to People and Leadership.

For fiscal 2009 donation initiatives were planned to have a stronger customer focus that included marketing and leveraging opportunities similar to sponsorships.

For fiscal 2010 and fiscal 2011 donation initiatives were planned to have a stronger alignment for energy conservation action in B.C.

ELECTRICITY SECURITY (SUPPLY)

FORECAST SUPPLY-DEMAND BALANCE

MW (surplus) / deficit	F2011
Target	0
Actual	115

The forecast supply-demand balance metric measures the net system capacity surplus or deficit under annual peak loads for the upcoming winter at the 90th percentile. This metric is calculated using the load forecast and conditions just prior to the winter period. Approximately 115 MW of additional peaking capacity was forecast to be required beyond owned or contracted resources to meet the 90th percentile reliability standard for the annual peak load, anticipated in December 2010. This slightly underperforms the target of 0 MW, however, this target was established before BC Hydro Board of Directors' approval to place 300 MW of Burrard Thermal Generation in long-term, recallable storage. If the results are normalized to account for 300 MW removed from available resources after the target was established, the forecast supply-demand balance outperforms the target by 185 MW.

Contingency capacity options such as existing load curtailment contracts, Canadian Entitlement, and Market capacity are arranged as required to meet any potential deficits.

WINTER GENERATION AVAILABILITY FACTOR

percentage—higher is better

	F2007	F2008	F2009	F2010	F2011	F2012
Target	95.8	94.9	96.2	96.3	96.4	96.4
Actual	96.2	96.2	98.4	97.8	96.4	

The Winter Generation Availability Factor (WGAF) is a percentage of Heritage Asset units in the system greater than 20 MW and available to generate electricity (total hours available for service/total hours) during the critical peak-load period of November 15 to February 15. BC Hydro focuses on WGAF to manage the availability of generation during the critical winter period when customer loads are most likely to reach their annual peaks, and all BC Hydro generating units remain in-service barring a forced outage or urgent maintenance.

BC Hydro planned an extended outage on Cheakamus Unit 2 because it was the best time to complete the work. Significant unplanned outages include, GM Shrum Unit 8, which remained out of service until late December due to an exciter transformer failure, extension of the outage for Lake Buntzen 1 Runner Replacement Project through the winter period, and the Seven Mile Unit 2 forced outage in January due to a unit transformer failure which continued for the balance of the winter period.

BC Hydro also reviews its generation performance against available industry benchmarks such as annual system availability and the frequency of unexpected outages. While these measures provide a means of comparison against other utilities, they do not provide the best measure of reliability performance. For example, annual system availability varies significantly due to outages for planned maintenance and capital upgrades, however, such outages are scheduled so that BC Hydro's ability to generate sufficient electricity to meet customer demand is not adversely affected.

ENERGY CONSERVATION AND EFFICIENCY

DEMAND-SIDE MANAGEMENT (DSM)

GWh/YEAR—higher is better

	F2008	F2009	F2010	F2011	F2012
Cumulative GWh/Year since F2008					
Target	295	761	1,700	2,300	3,600
Actual	324	783	1,775	2,348	

Demand-side management (DSM) reflects the cumulative rate of annual electricity savings resulting from DSM activities including programs, codes and standards and rate structures. The new programs and reported savings began in fiscal 2008, following the 2007 BC Energy Plan.

Despite a difficult economy the fiscal 2011 cumulative energy savings were above target. All areas, with the exception of the industrial sector, achieved plan levels. Industrial programs had strong performance through fiscal 2011 with areas like New Plant Design and Power Smart Partners Distribution experiencing very positive traction in the market. The Integrated Power Offer (IPO) and a renewed focus on incentives for Power Smart Partners Transmission has resulted in several large project opportunities in fiscal 2011. Customers' delays, however, have postponed many of these projects until next year, which meant that the industrial sector wasn't able to bring in as much energy savings in fiscal 2011. The residential sector, led by solid performance in both the Refrigerator Buy Back and Lighting, and the commercial sector programs, led by the strong Product Incentive Program, performed extremely well over the course of fiscal 2011.

The DSM savings in the above table reflect the cumulative rate of annual electricity savings resulting from DSM activities, such as energy conservation and efficiency, and load displacement. The targets exceed the Clean Energy Act's 66 per cent DSM target and align with the 2008 Long-Term Acquisition Plan targets, which correspond to a target of 10,000 GWh savings by 2020.

Targets are developed as part of the long-term DSM planning which uses results from the conservation potential review, and research related to other DSM tools as benchmarks for achievable savings and is updated on an annual basis, factoring in historical performance and new information. The cumulative fiscal 2012 target is per the BC Hydro Service Plan 2011/12-2013/14.

CLIMATE CHANGE AND ENVIRONMENTAL IMPACT

GREENHOUSE GAS EMISSIONS

Million tonnes CO₂e—lower is better

	F2009	F2010	F2011	F2012
Target ¹	1.60	1.55	1.50 ¹	N/A
Actual	1.66	1.36 ²	1.11	

¹ The fiscal 2011 target has been restated from 1.50 million tonnes CO₂e to 1.55 million tonnes CO₂e, as a result of the BC Hydro/BCTC integration.

² Previously reported fiscal 2010 performance results have been restated to reflect calculation methods required by the B.C. Reporting Regulation and the B.C. Carbon Neutral Government Regulation. At the end of fiscal 2010, they were reported as 1.31 million tonnes CO₂e.

The GHG Emissions metric includes emissions from electricity generation, electricity purchased from B.C. IPPs, vehicle fleet fuel combustion, fuel combustion in buildings, and estimated fugitive SF₆ releases. BC Hydro's GHG emissions fluctuate from year to year primarily because of the need to ensure reliability under annual prevailing water conditions.

The fiscal 2011 overall GHG Emissions were significantly below the restated target of 1.55 million tonnes CO₂e, due to lower than anticipated use of the Island Generation Plant and BC Hydro's Burrard Generating Station. Given market conditions, Island Generation did not operate for a total of about four and a half months in fiscal 2011. The Burrard Generating Station was called into service for emergency backup supply in July 2010 due to a substation outage and in November 2010 due to a cold snap.

When compared to published emission data from other Canadian hydroelectric utilities, BC Hydro's fiscal 2011 emissions of 1.11 million tonnes CO₂e for about 50,000 GWh of generation were higher than the reported 2009 emissions of Manitoba Hydro (0.25 million tonnes CO₂e for about 35,000 GWh) and Hydro Quebec (0.39 million tonnes CO₂e for about 203,000 GWh). This reflects the higher proportions of hydroelectric generation in the resource mix for these utilities. BC Hydro's GHG emissions per unit of net system generation (not including electricity imports) of 23 tonnes CO₂e per GWh in 2010 is significantly lower than the 2009 average GHG emissions intensity of Canadian Electricity Association (CEA) members (290 tonnes CO₂e per GWh) and CEA fossil fuel-fired generators (970 tonnes CO₂e per GWh) (CEA Sustainable Electricity Annual Report, 2009).

GHG emissions from BC Hydro-owned electricity generating facilities were calculated using methods required under the B.C. Reporting Regulation, with the exception of small generating stations that were not subject to reporting under the Regulation. For these facilities, published emission factors from Environment Canada were applied to known fuel use. Fugitive SF₆ emissions are inventoried once per year and annual results for the 2010 calendar year were used to estimate fiscal 2011 SF₆ releases. The methods used to calculate GHG emissions from BC Hydro's buildings and vehicle fleet are described under the Carbon Neutral Program Emissions section. GHG emissions from independent power producers (IPPs) were estimated and will be updated when regulatory report information becomes available. BC Hydro has retained an external verifier to verify GHG emissions from owned electricity generation and fugitive SF₆ emissions as required by the Reporting Regulation. All source data are subject to internal controls including data range controls and manager approval of source data.

Note: In the past, BC Hydro set targets for two GHG emissions measures: one for overall GHG emissions, and one to track performance toward carbon neutral public sector objectives. These two metrics have been reported above in this Annual Report. Starting with the new Service Plan 2011/12-2013/14, we replaced the overall GHG Emissions measure with the Electricity Production GHG Emissions measure to ensure that all material emission sources are included in one of the two GHG metrics, but not both. Restricting one metric to Electricity Production also makes our numbers more comparable to other utilities. BC Hydro will start reporting on the new Electricity Production GHG Emissions in the fiscal 2012 Annual Report.

CARBON NEUTRAL PROGRAM EMISSIONS

Million tonnes CO₂e—lower is better

	F2009	F2010	F2011	F2012
Target	0.0257	0.0265	0.0270 ¹	0.0300
Actual	0.0273	0.0299	0.0295	

¹ The fiscal 2011 target has been restated from 0.260 million tonnes CO₂e to 0.0270 million tonnes.

Under the Carbon Neutral Government Regulation of the B.C. Greenhouse Gas Reduction Targets Act, BC Hydro achieved carbon neutrality for calendar year 2010 by accurately measuring our greenhouse gas emissions, aggressively reducing emissions from operations and offsetting our remaining emissions using high-quality and verifiable offsets from the Pacific Carbon Trust.

The scope of the carbon neutral program includes emissions from the vehicle fleet, heating, cooling and lighting buildings, and paper consumption. The fiscal 2011 Carbon Neutral Program Emissions were 0.0295 million tonnes CO₂e, which is nine per cent higher than the 0.0270 million tonnes CO₂e target. This result is attributable to higher than anticipated levels of vehicle fuel use and building energy use, as well as improvements in data capture to include more sources identified since the targets were set. Targets set for the F2011/12-F2013/14 Service Plan reflect data capture improvements.

In the compliance period of calendar year 2010, BC Hydro emitted 29,763 tonnes (0.0298 million tonnes) of CO₂e from sources covered under the Regulation. Of these emissions, 75 per cent came from the vehicle fleet, 24 per cent from buildings and one per cent from paper use. BC Hydro purchased 30,000 tonnes of carbon offsets from the Pacific Carbon Trust to achieve carbon neutrality for calendar year 2010.

Note 1: The BC Hydro Service Plan 2009/10-2011/12 established targets for Carbon Neutral Program Emissions for F2009, F2010 and F2011 for the first time. The F2010 and F2011 targets were recalibrated in the BC Hydro Service Plan 2010/11-2012/13 to reflect additional data on building emissions, and subsequently updated to incorporate emissions from the B.C. Transmission Corporation in July 2010. BC Hydro has been proactively developing programs and initiatives to reduce carbon neutral emissions, including fleet greening, facility improvement and employee engagement.

CLEAN ENERGY

Percentage—higher is better

	F2008	F2009	F2010	F2011	F2012
Target	90	90	90	93 ¹	93
Actual	96	96	93	95	

¹ The F2011 Plan was restated in June 2010 due to the passing of the Clean Energy Act from 90 per cent to 93 per cent.

BC Hydro established the Clean Energy measure as a minimum threshold target in accordance with the B.C. Government's requirement that at least 93 per cent of electricity generation in the province should be from clean or renewable resources, i.e., from biogas, biomass, energy recovery generation, geothermal, hydrocarbon, hydro, hydrogen, municipal solid waste, solar, tidal, wave, wind or other potential clean or renewable electricity sources recognized by the B.C. Government. The 93 per cent minimum threshold ensures that we continue to contribute toward this provincial goal and try to improve upon our current performance.

APPENDIX B

REGULATORY

Fiscal 2011 was another year of significant regulatory activity for BC Hydro. The BCUC approved negotiated settlements which set rates for fiscal 2011 and established a new rate structure for BC Hydro's commercial customers; approved a number of generation facilities projects, remote community electrification projects and transmission projects; and BC Hydro filed its application for average rate increases in fiscal 2012 to fiscal 2014, among other activities outlined in the following table:

APPLICATION / FILING	DETAILS	STATUS
FISCAL 2011 REVENUE REQUIREMENTS APPLICATION (F11 RRA)	On March 3, 2010, BC Hydro filed its F11 RRA with the BCUC, requesting a general rate increase of 6.11 per cent and an increase to the deferral account rate rider of 3 per cent. These increases were approved on an interim basis and were effective on April 1, 2010. On an annual basis the resulting net bill impact to customers would have been 9.26 per cent.	In December 2010, the BCUC approved a Negotiated Settlement Agreement (NSA) between BC Hydro and intervener groups, including representatives from the main customer groups, which resulted in an annual net bill impact to customers for fiscal 2011 including the rate rider of 7.29 per cent.
FISCAL F2012-F2014 RRA (F22-F24 RRA)	On March 1, 2011, BC Hydro filed its F2012-F2014 RRA with the BCUC, requesting annual average rate increases of 9.73 per cent in F2012, F2013 and F2014. The rate increases are attributable primarily to higher amortization and finance charges due to increases in capital expenditures required to maintain an aging asset base and meet customer growth, as well as increases in domestic energy costs due to higher prices for new sources of firm supply.	The BCUC approved an across the board interim rate increase of 8 per cent effective May 1, 2011. The BCUC also suspended the regulatory process until an amended application is filed by BC Hydro in late summer/early fall 2011 which will be informed by the recommendations of a Government Review of BC Hydro undertaken in the spring of 2011.
LARGE GENERAL SERVICE (LGS) RATE APPLICATION	BC Hydro filed its LGS Rate application with the BCUC in October 2009. BC Hydro proposed to split the existing rate class into a large and medium commercial class. New rate structures were proposed for each new customer class to encourage conservation and energy efficiency.	A Negotiated Settlement Agreement (NSA) regarding the restructuring of the commercial class rate was reached by BC Hydro and its customers and was approved by the BCUC in June 2010. New rates for the large commercial customer class became effective January 1, 2011.

MAJOR GENERATION REFURBISHMENT PROJECTS

Three generation facility refurbishment projects were reviewed by the BCUC during fiscal 2011.

APPLICATION / FILING	DETAILS	STATUS
STAVE FALLS SPILLWAY GATES PROJECT	BC Hydro filed an application with the BCUC in December 2009 for acceptance of an estimated \$62 million of expenditures associated with the Stave Falls Spillway Gates Project. The existing gates at this facility are at end of life and their replacement will reduce dam safety risks related to any potential operational failure of the Stave Falls dam during high flood conditions.	The BCUC issued a decision in May 2010 determining that the expected expenditures to complete the Stave Falls Spillway Gates Project are in the public interest.
HUGH KEENLEYSIDE SPILLWAY GATES PROJECT	BC Hydro filed an application with the BCUC in July 2010 for acceptance of an estimated \$90 million of expenditures associated with the Hugh Keenleyside Spillway Gates project. The spillway gate system needs to be refurbished and upgraded to ensure that it can reliably pass water in a flood event or post-earthquake reservoir drawdown.	The BCUC issued a decision in December 2010 finding that the expected expenditures to complete the Keenleyside Spillway Gates Project are in the public interest.
RUSKIN DAM AND POWERHOUSE UPGRADE PROJECT	BC Hydro filed an application with the BCUC in February 2011, requesting a Certificate of Public Convenience and Necessity (CPCN) to replace parts of the seismically deficient Dam and to rehabilitate/replace the Ruskin Powerhouse and associated transmission facilities at a Board-authorized cost of \$857 million.	A written process is underway to review the application which is currently scheduled to be completed in October 2011. A decision is expected in late 2011.

MAJOR TRANSMISSION PROJECTS

The following major transmission projects were reviewed by the BCUC in fiscal 2011.

APPLICATION / FILING	DETAILS	STATUS
INTERIOR TO KWEW MAINLAND ILM TRANSMISSION / USRAVE RECONSIDERATION OF CERTIFICATE OR PUBLIC CONVENIENCE & NECESSITY (CPCN) DECISION	The BCUC reconsidered BCTC's ILM application for the purpose of determining the adequacy of First Nations consultation on this project from 2006 up to the point when the CPCN was issued in August 2008. Construction of this project has been suspended, pending a decision on this matter.	In February 2011, the BCUC determined that First Nations' consultation was deficient in some instances and thus extended the CPCN suspension for this project until these deficiencies are addressed to its satisfaction. Some First Nations groups sought a reconsideration of this decision but in May 2011 the BCUC denied their application because it did not meet the threshold for a reconsideration to proceed.
VANCOUVER CITY CENTRAL TRANSMISSION PROJECT (MOUNT PLEASANT/ALSO CREEK AREA)	BCTC applied to the BCUC in the fall of 2009 for CPCNs to construct a new substation in Mount Pleasant together with two new underground 230 KV transmission circuits connecting this new substation with the existing Sperling and Cathedral Square substations. The estimated cost to complete the project is \$200 million.	The BCUC granted a CPCN for the project in June 2010.
COLOMBIA VALLEY TRANSMISSION PROJECT	An application for a CPCN was filed by BCTC in January 2010 to construct new transmission lines, a new substation and modifications to existing substations in the upper Columbia Valley region at an estimated cost of \$154 million.	The BCUC granted a CPCN for this project in September 2010.
SOUTHERN ST'AT'IMC COMMUNITIES ELECTRIFICATION PROJECTS	BC Hydro filed an application with the BCUC in December 2009 for acceptance of expenditures to provide electric service to the Southern St'at'imc Communities. The project is expected to cost about \$30 million, with part of the expenditures to be funded by contributions from Indian and Northern Affairs Canada and the St'at'imc.	The BCUC issued a decision in April 2010 accepting the project as being in the public interest.
TOTHER REMITE COMMUNITY ELECTRIFICATION (RCE) PROJECTS	BC Hydro filed CPCN applications for the communities of Tsay Keh, Fort Ware and Elhateese with the BCUC in December 2010. These RCE projects will allow BC Hydro to remotely provide reliable electricity supply to these customers through diesel generation.	The BCUC granted CPCNs for these projects in February 2011.

APPENDIX C

SHAREHOLDER'S LETTER OF EXPECTATIONS

The *Shareholder's Letter of Expectations* describes the relationship between BC Hydro and the Province, and sets out objectives the shareholder wishes BC Hydro to achieve. The Province and BC Hydro review the letter annually and update it as required.

Directions outlined in the letter for which this Annual Report is referring, dated January 2010, focus on accountability, energy conservation, climate change, stakeholder consultation, private sector support, supply options, electricity trading and government relations.

OUTLINED BELOW IS HOW BC HYDRO HAS RESPONDED TO EACH OF THE SHAREHOLDER'S EXPECTATIONS:

BC Hydro shall:

Ensure that BC Hydro's priorities reflect Government's goals of building a strong economy; job creation; infrastructure and private sector investment; First Nations reconciliation; and climate action initiatives.

BC Hydro action

BC Hydro's priorities reflect government's goals. In addition, the reintegration of BCTC has resulted in a significant amount of change at BC Hydro, in tandem with the enactment of the *Clean Energy Act* and the introduction of new executive leaders. Accordingly, the company's Strategic Plan was updated with a revised vision and six strategic objectives, which replace the previous purpose statement, 15 Guiding Principles and six short-term priorities. These directives will ensure that we continue to be aligned with Government's goals.

BC Hydro shall:

Conduct its affairs to achieve its mandate and the performance expectations and objectives of the Shareholder, including establishing plans and implementing corporate strategies, programs, plans and financial outcomes that are consistent with the Shareholder's general direction and consistent with principles of efficiency, effectiveness and customer service.

BC Hydro action

Annually, BC Hydro prepares a Service Plan and Quarterly Reports, which outline our performance in alignment to the expectations laid out by the Shareholder. These can be found under *Reports* in our company information section on bchydro.com.

BC Hydro shall:

Conduct its operations and financial activities in a manner consistent with the legislative, regulatory and policy framework established by the Shareholder.

BC Hydro action

This annual report is consistent with the legislative, regulatory and policy framework established by the Shareholder.

BC Hydro shall:

Prepare Service Plans with clearly articulated goals, objectives, strategies and performance measures and targets, and Annual Reports that detail progress toward achieving those goals, and post both documents on its website.

BC Hydro action

BC Hydro prepares and publishes the Service Plan and Annual Report. In addition, the *G3 Report*, Quarterly Reports and supplemental reports are posted online, as appropriate.

BC Hydro shall:

Display all annual Statement of Financial Information schedules prepared under *The Financial Information Act* in an easily accessible location on its website.

BC Hydro action

BC Hydro's financial information is released through its Annual Report, in addition to the *Financial Information Act* return information which is clearly displayed, every year, under the Openness and Accountability section on the bchydro.com website.

BC Hydro shall:

Develop and implement strategies to manage risks identified in the Service Plan.

BC Hydro action

BC Hydro's operations involve a broad spectrum of risks ranging from those commonly associated with any business to catastrophic societal loss risks that would have severe effects on entire regions. The key risks BC Hydro faces are divided into six categories for management purposes: employee, public and dam safety; reliability; financial performance; regulatory; organization risk; and environmental.

BC Hydro shall:

Provide the shareholder with reports and other information that would enable the Shareholder to carry out its responsibilities.

BC Hydro action

Annually, BC Hydro prepares a Service Plan, Quarterly Reports and the Annual Report, which outline our performance in alignment to the expectations laid out by the Shareholder. These can be found under *Reports* in our company information section on bchydro.com.

BC Hydro shall:

Inform the shareholder immediately if the Corporate is unable to meet the performance and financial targets identified in its Service Plan.

BC Hydro action

BC Hydro prepares Quarterly Reports, which outline our performance and progress in relation to the goals established in the Service Plan.

BC Hydro shall:

Comply with the Shareholder's requirements to make the public sector carbon neutral by 2010, including: accurately defining, measuring, reporting on and verifying the greenhouse gas emissions from the Corporation's operations; implementing aggressive measures to reduce those emissions and reporting on these reduction measures and reduction plans; and offsetting any remaining emissions through investments in the Pacific Carbon Trust, which will invest in greenhouse gas reduction projects outside of the Corporation's scope of operations.

BC Hydro action

BC Hydro currently supplies electricity at one of the lowest carbon intensities in the world. Concern about greenhouse gas emissions is now a permanent part of utility planning and BC Hydro has developed a climate change strategy that will manage regulatory risk and ensure compliance, reduce greenhouse emissions and prepare for the unavoidable physical impacts of climate change.

BC Hydro shall:

Support the Healthier Choices Initiative, ensuring that all vending machines located in facilities owned or leased by BC Hydro have food products which meet the Shareholder's Nutrition Guidelines for Vending Machines in public buildings.

BC Hydro action

Beginning in April 2009, as part of the Province's Healthier Choices Initiative, non-contracted vending machines at all BC Hydro buildings and sites have been transitioned to provide healthier choices under the terms of the Nutrition Guidelines.

BC Hydro shall:

Ensure Shareholder is advised in advance of the release of any information requests by BC Hydro under the *Freedom of Information and Protection of Privacy Act*.

BC Hydro action

BC Hydro notifies the Shareholder in advance of the release of all information requests under the *Freedom of Information and Protection of Privacy Act*.

BC Hydro shall:

Ensure any debit/credit card payment services provided to the public are in compliance with the international Payment Card Industry (PCI) Data Security Standards by the October 1, 2010 deadline.

BC Hydro action:

BC Hydro ensures that its payment services are in compliance with these data security standards and has adjusted their payment services accordingly.

BC Hydro shall:

Ensure BC Hydro's membership in the Crown Corporation Employer's Association is in good standing.

BC Hydro action:

BC Hydro's membership in the Crown Corporation Employer's Association is updated each year and continues to be in good standing.

BC Hydro shall:

Annually assess the Board appointment process to ensure that succession results in a balance of renewal and continuity of Board membership and provide the results of this assessment to the shareholder for consideration.

BC Hydro action:

See *Corporate Governance* to see the latest organization structure and changes to the Board Renewal processes that have been made in the last year.

BC Hydro shall:

Ensure that Board appointments of BC Hydro's subsidiaries have been approved by Cabinet.

BC Hydro action:

BC Hydro ensures that the provincial government are kept informed of any subsidiary appointments, and obtains Cabinet approval for them. For more information, please refer to the *Corporate Governance* section to see the latest organization structure and changes to the Board Renewal processes that have been made in the last year.

BC Hydro shall:

Comply with the Government's requirement that lobbyists not be engaged to act on behalf of BC Hydro in its dealings with Government.

BC Hydro action:

As a Crown Corporation, BC Hydro deals directly with the Government and does not engage lobbyists in this area.

BC Hydro shall:

Continually review and improve its organizational structure to enhance accountability, cost effectiveness and performance.

BC Hydro action:

BC Hydro continually examines its overall organizational effectiveness to ensure that we are delivering safe, reliable and cost-effective service for our customers.

BC Hydro shall:

Present a plan to review all cost structures with a view to realizing cost savings for ratepayers and implement the resultant cost savings starting in Fall 2010.

BC Hydro action:

BC Hydro continued its vacancy management strategy in fiscal 2011 by working through the integration process and undertaking a workforce analysis to review the structure and function of business units. It also reviewed its financial and procurement processes, moving to national and international best practices (IFRS, GAAP) within the last two years. The Revenue Requirements process also helps to ensure that our cost structures are reviewed on a regular basis to ensure cost savings and efficiencies.

BC Hydro shall:

Aggressively pursue all actions necessary to implement the objectives of the Energy Plan as set out in Appendix 1 to uphold British Columbia's leadership as one of the greenest jurisdictions in Canada.

BC Hydro action

As outlined in the Service Plan and *Clean Energy Act*, we have updated our strategic plan to ensure that our business objectives, key projects and initiatives will enable us to fulfill the terms and directives of the *Clean Energy Act*.

BC Hydro shall:

Continue to support the Shareholder in the development of materials for the Cabinet Committee on Climate Action and Clean Energy to ensure British Columbia remains a leader in clean and renewable energy.

BC Hydro action

BC Hydro supports the work of the Cabinet Committee whenever requested.

BC Hydro shall:

Support the Shareholder's clean energy powerhouse objectives by helping to identify strategies aimed at developing British Columbia's clean, renewable, low carbon energy potential to stimulate new investment, industry and employment in the province.

BC Hydro action

BC Hydro has helped to identify strategies aimed at developing British Columbia's clean, renewable, low carbon energy potential to stimulate new investment, industry and employment in the province through the development of new projects and working with independent power producers to create new sources of energy. We have also investigated new forms of technology in our operations, in addition to supporting a variety of green programs, including the use of electric vehicles, the development of our new strategies and objectives, and asking the public and communities for input as to how we can better use our resources through the Integrated Resource Planning process.

BC Hydro shall:

Continue to use communications and consultation processes to promote openness and transparency with First Nations and the Corporation's stakeholders.

BC Hydro action

BC Hydro is committed to building trusted and sustainable long-term relationships with our stakeholders and First Nations in the communities we serve and live in. Sometimes, this involves undertaking consultation processes on a variety of capital projects or initiatives, and listening to a community's interests and concerns. Stakeholder and First Nation consultation is embedded as part of the process with all of our projects, and our staff throughout the province ensure that we communicate about our work in a timely and effective way to B.C. residents.

BC Hydro shall:

Maintain the highest level of ethical behaviour with BC Hydro partners in the development and maintenance of projects.

BC Hydro action

BC Hydro acts with integrity in all of our business relationships, complying with all applicable laws, following best practice guidelines in corporate governance. BC Hydro has a Code of Conduct and policies that ensure we maintain the highest level of ethical behaviour in the development and maintenance of projects. In addition, we require individuals and companies who conduct business with us to use similar high standards of conduct. For more information, please see the Openness and Accountability section of our Corporate Governance section at http://www.bchydro.com/about/company_information/openness_accountability.html.

BC Hydro shall:

Provide open and non-discriminatory procurement of goods, services and construction consistent with the Shareholder's procurement and Capital Asset Management Framework policies and British Columbia's obligations under the Trade, Investment and Labour Mobility Agreement between British Columbia and Alberta.

BC Hydro action

BC Hydro ensures that its procurement processes are consistent with the Shareholder's by adopting policies and processes consistent with the Shareholder's and with the New West Partnership Trade Agreement (which has replaced the Trade, Investment and Labour Mobility Agreement between British Columbia and Alberta). During fiscal 2011 BC Hydro also conducted a Supplier Engagement Survey to better understand its relationships with suppliers and how these could be improved. The results of these survey included ten recommendations to improve BC Hydro's engagement with its suppliers and thereby bring benefits to both BC Hydro and its suppliers.

BC Hydro shall:

Through its subsidiary Powerex, actively pursue extra-provincial energy trading markets and explore and identify opportunities to facilitate access for independent power producers to western North American markets.

BC Hydro action

Powerex continues its energy marketing and trade activities including buying and supplying wholesale power, natural gas, ancillary services, financial energy products, and, more recently, environmental products with an ever-expanding list of trade partners. These activities help optimize BC Hydro's electric system resources and provide significant economic benefits to British Columbians.

BC Hydro shall:

Support the Shareholder's greenhouse gas reduction strategy through the phase-out of reliance on Burrard Thermal for firm energy.

BC Hydro action

As directed by the *Clean Energy Act* (CEA) BC Hydro will not plan to rely on energy or capacity from Burrard, except: in the case of emergency, to provide transmission support services or as authorized by regulation.

As a result, a five year operating plan and associated capital scenario for Burrard has been developed that meets system reliability requirements while minimizing the introduction of incremental costs without compromising safety, reliability or the environment. BC Hydro has also ensured flexibility to respond to different system conditions and emergencies that could emerge over time.

BC Hydro shall:

Encourage British Columbians to do their part in being leaders in energy efficiency, the reduction of greenhouse gas emissions and making the Province a healthy place for future generations.

BC Hydro action

BC Hydro encourages B.C. residents and its customers to do their part to conserve energy and reduce GHG emissions whenever possible, through a variety of conservation initiatives and programs. See www.bchydro.com/powersmart for more information.

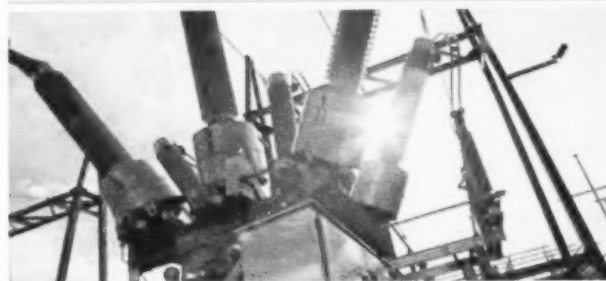
APPENDIX D

CAPITAL PROJECTS

BC Hydro has entered into a regeneration phase, investing to renew and expand the province's electricity system. These investments are required to improve and replace aging facilities that were built primarily between 1950 and 1980, ranging from upgrading dams and generating stations, to building entirely new transmission lines linking existing and new substations, as well as other key projects. The following are a list of key projects we completed in fiscal 2011, as well as projects that we are planning or contemplating for the future.

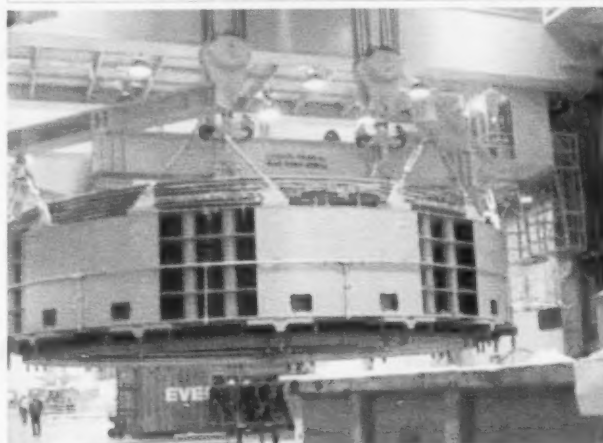
RECENTLY COMPLETED PROJECTS

CENTRAL VANCOUVER ISLAND PROJECT	F2011 Completed	\$60 Total cost (\$ millions) ¹
The Central Vancouver Island project consists of a new 230/138 kV substation near Nanaimo and a new 12 km double circuit 230 kV transmission line connecting the new substation to the existing 230 kV lines between Dunsmuir and Sahtlam substations. This project will help to prevent overload conditions on the 138 kV regional transmission systems serving the east side of Vancouver Island between Qualicum Beach and Ladysmith and will also provide for the future needs of this rapidly growing region. The project received a Certificate of Public Convenience and Necessity from the British Columbia Utilities Commission in December 2008 and was completed and in-service on schedule in October 2010.		



Above: Harewood West Substation, south of Nanaimo

GORDON M. SHRUM UNITS 1 TO 4 STATOR REPLACEMENTS	F2011 Completed	\$78 Total cost (\$ millions) ¹
BC Hydro replaced four stators at the Gordon M. Shrum (GMS) facility that were at risk of failure and where rewinding the stators were not technically feasible due to the condition of the cores. We began installing the new stators in 2007.		



Above: GMS Stator Replacement

REVELSTOKE UNIT 5 PROJECT	F2011 Completed	\$250 Total cost (\$ millions) ¹
The Revelstoke Generating Station was designed as a six-unit generation station. However, when the facility was constructed, only four units were installed, leaving two unit bays empty. BC Hydro installed a fifth generating unit at Revelstoke to provide 500 MW of additional, reliable capacity to the BC Hydro system. The new generating unit will also provide additional operating flexibility and reserves. Construction began in November 2007.		



Below: The BC Hydro construction management and engineering team, along with turbine and generator contractor staff from Voith Hydro gather in May 2010 before the rotor is lifted into Unit 5 at Revelstoke.



¹ The capital expenditure amounts are presented in accordance with Canadian GAAP and have not been adjusted to reflect the impact of IFRS.

ONGOING & PLANNED

1. CHEAKAMUS SPILLWAY GATE RELIABILITY UPGRADE	F2012 Targeted completion	\$64-73 Total cost (\$ millions) ¹
Upgrade the spillway gates at the Cheakamus dam to increase public and employee safety and ensure the gates meet Flood Discharge Reliability requirements.		
2. FORT NELSON GENERATING STATION UPGRADE	F2012 Targeted completion	\$139-150 Total cost (\$ millions) ¹
Increase generating capacity at the Fort Nelson Generating Station by 24.5 MW to ensure an adequate supply of electricity to the Fort Nelson area.		
3. SMART METERING & INFRASTRUCTURE PROGRAM	F2013-F2014 Targeted completion	\$930 Total cost (\$ millions) ¹
Introduce new digital smart meters that support two-way communications to approximately 1.8 million BC Hydro customers throughout the province. The program includes in-home feedback options, metering communication infrastructure, system metering to reduce electricity theft, and advanced telecommunications infrastructure.		
The Smart Metering & Infrastructure Program plays a key role in modernizing BC Hydro's electricity grid. All customers will benefit from more choice and more control over their electricity usage, and operational efficiencies that will help keep BC Hydro's rates competitive and contribute to a clean energy future.		
4. STAVE FALLS SPILLWAY GATE RELIABILITY UPGRADE²	F2013 Targeted completion	\$67-72 Total cost (\$ millions) ¹
Upgrade the spillway gates at the Stave Falls dam to increase public and employee safety and ensure the gates meet Flood Discharge Reliability requirements.		
5. COLUMBIA VALLEY TRANSMISSION PROJECT (CVT)	F2013 Targeted completion	\$132-209 Total cost (\$ millions) ¹
Construct a new 230kV transmission line from the existing Invermere substation to a new substation (called Kicking Horse) to be built on the west side of the Columbia River near the town of Golden; construct a new 69kV transmission line between the new Kicking Horse substation and the existing Golden substation; expand Golden and Invermere substations and modify the Cranbrook substation—all to meet load growth in the Columbia Valley area.		
6. VANCOUVER CITY CENTRAL TRANSMISSION (VCCT)	F2013 Targeted completion	\$177-195 Total cost (\$ millions) ¹
Build an enclosed 230/12 kV substation in the Mt. Pleasant area of Vancouver and two new underground 230 kV transmission lines connecting the new substation to the existing transmission network to serve growing loads in the Mt. Pleasant/False Creek area and maintain a reliable supply of electricity to other areas of Vancouver.		

7. DAWSON CREEK/CHETWYND AREA TRANSMISSION (DCAT)	F2014 Targeted completion	\$150-250 Total cost (\$ millions) ¹
Extend the 230 kV transmission system to Bear Mountain terminal and Dawson Creek to meet the area's high load growth (primarily from oil and gas development) and integrate potential wind generation resources in the region.		
8. MICA GAS INSULATED SWITCHGEAR REPLACEMENT	F2014 Targeted completion	\$181-200 Total cost (\$ millions) ¹
Replace the switchgear system at the Mica Generating Station to ensure the reliability of this key generating station and reduce SF ₆ (a greenhouse gas) leakage. The switchgear system uses 500-kV circuits to conduct the energy from the Mica underground powerhouse to the surface, where it transitions to transmission lines.		
9. HUGH KEENLEYSIDE SPILLWAY GATE RELIABILITY UPGRADE²	F2014 Targeted completion	\$91-102 Total cost (\$ millions) ¹
Upgrade the spillway gates at the Hugh Keenleyside dam to increase public and employee safety and ensure the gates meet Flood Discharge Reliability requirements.		
10. NORTHWEST TRANSMISSION LINE PROJECT (NTL)	F2014 Targeted completion	\$364-525 Total cost (\$ millions) ¹
Construct a 340 km, 287 kV transmission line between Skeena substation near Terrace and a new substation to be built near Bob Quinn Lake to ensure a reliable supply of clean power to potential industrial developments in the area; provide a secure interconnection point for clean generation projects; and potentially help certain northwest communities to get their power from the electricity grid rather than diesel generators.		
11. INTERIOR TO LOWER MAINLAND (ILM)	F2015 Targeted completion	\$540-780 Total cost (\$ millions) ¹
Construct a new 500 kV transmission line approximately 255 km in length between the Nicola substation near Merritt and the Meridian substation in Coquitlam and build a new series capacitor station at Ruby Creek near Agassiz to help meet domestic load growth in the Lower Mainland.		
12. SEYMOUR ARM SERIES CAPACITOR STATION (SASC)	F2015 Targeted completion	\$50-100 Total cost (\$ millions) ¹
Construct a new 500 kV series capacitor station adjacent to the existing corridor for lines 5L71 and 5L72 near the mid-point between the Mica Generating Station and the Nicola Substation near Merritt to securely deliver the expanded generation output of the Mica generating station.		

The capital expenditure amounts are presented in accordance with Canadian GAAP and have not been adjusted to reflect the impact of IFRS.

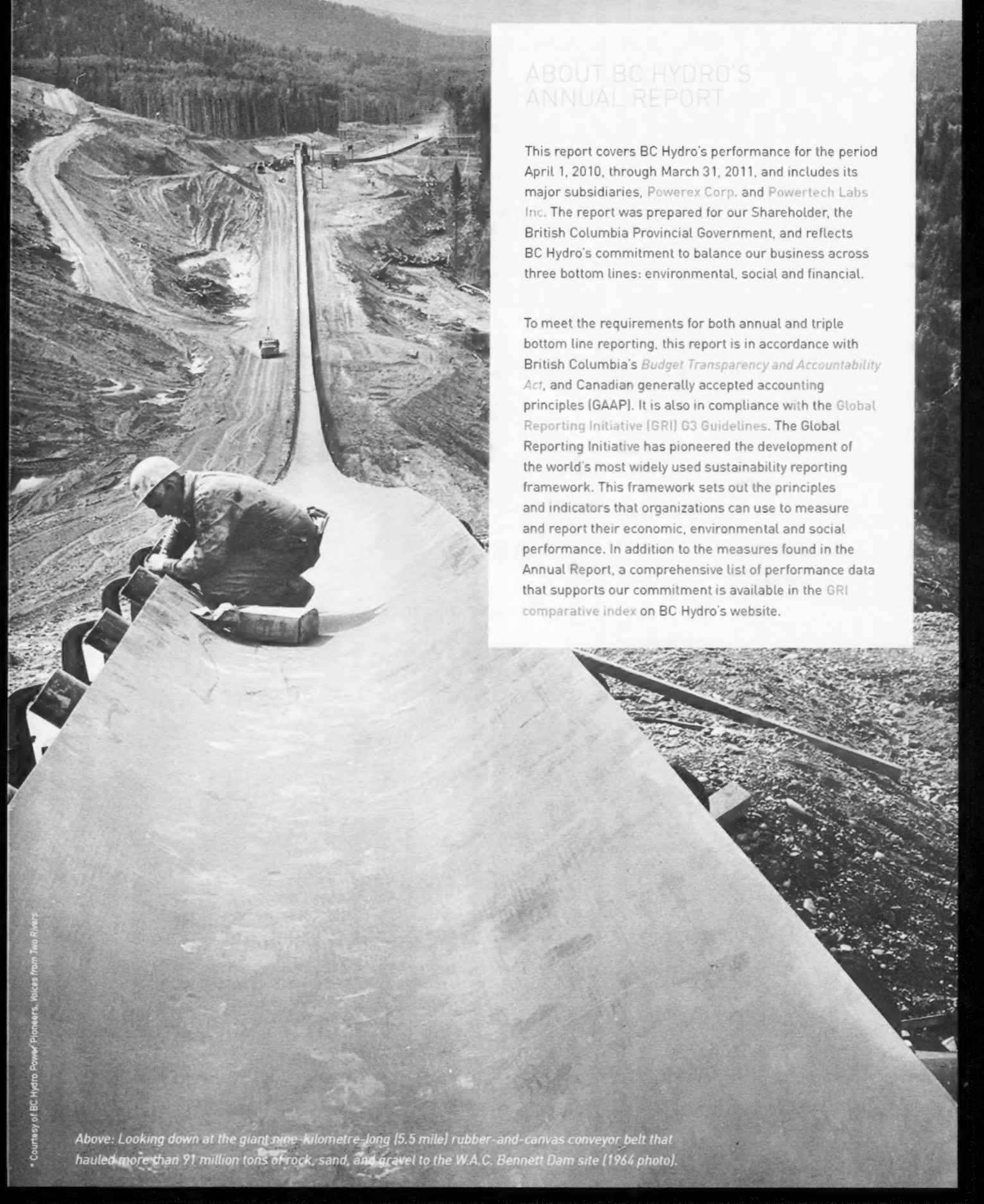
Spillway gates control the amount of water that can be discharged from the reservoir. They are generally used in times of flood to pass high inflows.

Smart Metering & Infrastructure Program amount includes both capital costs and operating expenditures subject to regulatory deferral.

13. RUSKIN DAM SEISMIC AND POWERHOUSE UPGRADE	F2018 Targeted completion	\$729-867 Total cost (\$ millions) ¹
This project upgrade will meet modern safety and seismic requirements and replace the powerhouse equipment, which is in poor condition. It is expected to take six years to complete and includes: reinforcement of the right bank; seismic upgrade of the dam and water intakes; powerhouse upgrades; and, relocation of the switchyard. Once completed, the upgraded facility will be reliable and safe and will produce enough electricity to serve more than 33,000 homes.		
14. MICA UNITS 5 AND 6	F2015-F2016 Targeted completion	\$700-800 Total cost (\$ millions) ¹
Install two additional 500 MW generating units into existing turbine bays at the Mica Generating Station. The new units are similar to the four existing units, but with more efficient turbines. To be undertaken in conjunction with the construction of a series capacitor station located near the mid-point on the existing Mica-Nicola 500kV transmission lines.		

15. GORDON M. SHRUM UNITS 1 TO 5 TURBINE REPLACEMENT	F2017 Targeted completion	\$247-314 Total cost (\$ millions) ¹
Replace the turbines for Units 1 to 5 to reduce the risk of runner failure, decrease maintenance costs; and improve operating efficiency.		
16. SITE C CLEAN ENERGY PROJECT	F2021 Targeted completion	\$7.9 Estimated total cost (\$ billions) ¹
The Site C Clean Energy Project is a proposed third dam and hydroelectric generating station on the Peace River in northeast B.C. Site C would help meet future electricity needs by providing up to 1,100 MW of capacity and 5,100 GWh of energy each year—that's enough energy to power more than 450,000 homes per year in B.C. The project is currently in Stage 3 Environmental and Regulatory Review, which includes a thorough independent environmental review by both federal and provincial environmental assessment agencies.		

¹ The capital expenditure amounts are presented in accordance with Canadian GAAP and have not been adjusted to reflect the impact of IFRS.



ABOUT BC HYDRO'S ANNUAL REPORT

This report covers BC Hydro's performance for the period April 1, 2010, through March 31, 2011, and includes its major subsidiaries, Powerex Corp. and Powertech Labs Inc. The report was prepared for our Shareholder, the British Columbia Provincial Government, and reflects BC Hydro's commitment to balance our business across three bottom lines: environmental, social and financial.

To meet the requirements for both annual and triple bottom line reporting, this report is in accordance with British Columbia's *Budget Transparency and Accountability Act*, and Canadian generally accepted accounting principles (GAAP). It is also in compliance with the Global Reporting Initiative (GRI) G3 Guidelines. The Global Reporting Initiative has pioneered the development of the world's most widely used sustainability reporting framework. This framework sets out the principles and indicators that organizations can use to measure and report their economic, environmental and social performance. In addition to the measures found in the Annual Report, a comprehensive list of performance data that supports our commitment is available in the GRI comparative index on BC Hydro's website.



Above: Members of the Cranbrook Transmission line crew restored power to a 500 kV transmission line [5L92] affected by icy conditions during the winter of 2011, safely using a snow-cat and helicopter to access this remote section of the line. The crew, from left, Darcy Johnson, Glenn Bianowsky, Josh Huxley, Ken Thomson, Kent Bradley, Kennan Morrison, Ian Kozicky and Ron Janzen.

FOR GENERAL INFORMATION ABOUT BC HYDRO:

Lower Mainland

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